

**In The Matter Of:**

**AHERF v.  
PRICEWATERHOUSECOOPERS**

---

**KARLEEN CARLSON STRAYER**  
*October 8, 2003*

---

**LEGALINK MANHATTAN**  
**420 Lexington Avenue - Suite 2108**  
**New York, NY 10170**  
**PH: 212-557-7400 / FAX: 212-692-9171**

CARLSON STRAYER, KARLEEN



**LEGALINK®**

A WORDWARE COMPANY

<p style="text-align: right;">Page 22</p> <p>1 KARLEEN CARLSON STRAYER 10:31:03      2 A. Two, two primary ways: One is by 10:31:10      3 very diligent monitoring of the credit's 10:31:13      4 performance over time; and the second is that 10:31:15      5 when the transactions are underwritten, there 10:31:18      6 are various covenants put in place that allow 10:31:20      7 us certain rights and remedies in the event 10:31:25      8 there is a problem. 10:31:27      9 Q. What was your position when you 10:31:37      10 joined the Surveillance Department in December 10:31:38      11 of 1992? 10:31:40      12 A. I was the vice-president in the 10:31:42      13 Healthcare Group. 10:31:43      14 Q. Do you recall how many groups 10:31:46      15 there were in the Surveillance Department 10:31:47      16 department at this point in time? 10:31:53      17 A. Not exactly; maybe six, something 10:31:55      18 like that; at least, we have a public finance 10:31:57      19 side and a structured finance side and the 10:32:02      20 public finance side, which is where I was, 10:32:05      21 probably had about six. 10:32:07      22 Q. You mentioned that you were, you 10:32:09      23 joined MBIA as a vice-president: What were 10:32:11      24 the other positions within the Healthcare 10:32:14      25 Group at that point in time? 10:32:15</p>	<p style="text-align: right;">Page 24</p> <p>1 KARLEEN CARLSON STRAYER 10:33:23      2 vice-president that you're recollecting? 10:33:25      3 A. Rich Quimby. 10:33:28      4 Q. Who was the vice-president to whom 10:33:29      5 you reported? 10:33:31      6 A. Tim McKeon. 10:33:34      7 Q. What were your responsibilities in 10:33:37      8 this position as vice-president? 10:33:40      9 A. To monitor the healthcare 10:33:42      10 portfolio and certain credits within the 10:33:45      11 healthcare portfolio and, over time, to 10:33:48      12 remediate various credits. 10:33:53      13 Q. How were you given assignments? 10:34:00      14 A. My manager would assign various 10:34:05      15 credits to me. 10:34:07      16 Q. When you say "manager," did you 10:34:14      17 mean the vice president to whom you reported, 10:34:14      18 Mr. McKeon? 10:34:16      19 A. Mr. McKeon and Mr. Quimby. 10:34:16      20 Q. During your, let's say, first two 10:34:27      21 years as a vice-president in the Surveillance 10:34:29      22 Department, do you recall working on any 10:34:32      23 Pennsylvania- or New Jersey-based healthcare 10:34:35      24 credits? 10:34:40      25 A. In the first two years, '90 -- 10:34:41</p>
<p style="text-align: right;">Page 23</p> <p>1 KARLEEN CARLSON STRAYER 10:32:15      2 A. In terms of the other individuals 10:32:18      3 in the group? 10:32:20      4 Q. Not specifically individuals' 10:32:21      5 names, I'm just trying to gain a sense in 10:32:24      6 terms of the titles of people who worked in 10:32:26      7 the group at that point in time; in other 10:32:29      8 words, you were a vice-president. I take it 10:32:31      9 there was a director? 10:32:33      10 A. We didn't have that title in 1992. 10:32:34      11 Q. Okay. 10:32:36      12 A. I can't recall the exact title 10:32:38      13 structure but I believe in the Healthcare 10:32:40      14 Group there was one other vice-president, and 10:32:43      15 I reported to a vice-president who was 10:32:46      16 actually part-time in the Utility Group, 10:32:50      17 part-time in the Healthcare Group, and then 10:32:55      18 there were two other more junior analysts and 10:32:57      19 I don't recall their titles. 10:33:02      20 Q. Who were the two other junior 10:33:14      21 analysts, that you recollect? 10:33:15      22 A. Their names? 10:33:17      23 Q. Yes. 10:33:18      24 A. Leo Roland and Susan Epstein. 10:33:18      25 Q. And who is the other 10:33:23</p>	<p style="text-align: right;">Page 25</p> <p>1 KARLEEN CARLSON STRAYER 10:34:41      2 Q. '93 to '94, yes. 10:34:45      3 A. '93 to '94... Yes. 10:34:48      4 Q. Which credits do you recall 10:34:55      5 working on in this time frame? 10:34:56      6 A. The primary credit that became my 10:34:59      7 responsibility during that time that was in 10:35:01      8 that area was Sacred Heart Hospital, but there 10:35:03      9 -- actually, I should point out during that 10:35:09      10 time I became manager of the group and then 10:35:11      11 the group's staffing changed significantly; so 10:35:13      12 I was basically responsible for the entire 10:35:17      13 healthcare portfolio during that time. 10:35:20      14 Q. You mentioned "Sacred Heart"; 10:35:24      15 that's in Norristown, Pennsylvania? 10:35:27      16 A. Yes. 10:35:29      17 Q. Do you recall any other 10:35:30      18 Pennsylvania- or New Jersey-based healthcare 10:35:30      19 credits that you worked on in this time frame, 10:35:34      20 '93, '94? 10:35:35      21 A. In terms of -- well, I was 10:35:38      22 responsible for the entire portfolio, so 10:35:40      23 anything that was in our portfolio at the time 10:35:43      24 was my responsibility to ensure that it was 10:35:45      25 monitored; in terms of remedial work, I don't 10:35:48</p>

<p>1 KARLEEN CARLSON STRAYER 10:35:48      2 recall that time period. We did spend a lot 10:35:53      3 of time on Sacred Heart Hospital. 10:35:56      4 Q. Were these functions split at this 10:36:00      5 point in time; by "functions," I mean 10:36:06      6 monitoring credits and remediation? 10:36:08      7 A. I don't think I understand the 10:36:14      8 question. 10:36:14      9 Q. If I understood you correctly, I 10:36:14      10 believe you testified that when you joined in 10:36:16      11 '92, you had general responsibility to monitor 10:36:18      12 all the existing healthcare credits of MBIA? 10:36:25      13 A. Well, it wasn't my function in 10:36:27      14 1992 to monitor all the credits; only the 10:36:35      15 credits that I was assigned to monitor. 10:36:35      16 Q. Let me ask you this: When did you 10:36:35      17 become manager of the Healthcare Group in the 10:36:37      18 Surveillance Department? 10:36:38      19 A. I believe it was mid-to-late 1993; 10:36:40      20 it might have been earlier; it was some time 10:36:44      21 during 1993. 10:36:47      22 Q. And how long did you hold that 10:36:49      23 position? 10:36:50      24 A. Till 2001. 10:36:54      25 Q. And what was your next position? 10:36:59</p>	<p>Page 26</p> <p>1 KARLEEN CARLSON STRAYER 10:38:10      2 Q. Were you also given responsibility 10:38:11      3 for all of the remediation efforts, if any, 10:38:14      4 that MBIA was undertaking at that point in 10:38:18      5 time with respect to healthcare credits? 10:38:20      6 A. Yes. 10:38:22      7 Q. When you became manager of the 10:38:28      8 Healthcare Group in mid-to-late 1993, I 10:38:29      9 believe you mentioned that the Healthcare 10:38:35      10 Group was re-shuffled as a staffing matter, is 10:38:40      11 that right? 10:38:43      12 A. Yes. 10:38:43      13 Q. What was the structure of the 10:38:43      14 group after you joined as manager? 10:38:45      15 A. After I became manager? 10:38:49      16 Q. Yes. 10:38:51      17 A. I had to hire staff for the entire 10:38:52      18 group. I started with an intern who later 10:38:58      19 became an analyst and over time hired a fair 10:39:02      20 number of people. 10:39:05      21 Q. Who was the individual who started 10:39:08      22 as an intern and later became an analyst? 10:39:10      23 A. Ethan Parks. 10:39:13      24 Q. Were there any other analysts -- 10:39:16      25 withdrawn. 10:39:20</p>
<p>1 KARLEEN CARLSON STRAYER 10:36:59      2 A. I became head of the new business 10:37:02      3 group, healthcare new business group at MBIA 10:37:05      4 doing originations. 10:37:09      5 Q. What's your current title? 10:37:12      6 A. My current title? 10:37:14      7 Q. Yes. 10:37:16      8 A. I'm the managing director. 10:37:16      9 Q. You're the managing director of 10:37:24      10 the Healthcare Group on the new business side, 10:37:26      11 is that right? 10:37:28      12 A. No. About four, five months ago I 10:37:29      13 became head of the Municipal Structured Group 10:37:31      14 at MBIA; it's basically our housing group. 10:37:34      15 Q. So as of four to five months ago 10:37:39      16 you no longer handle healthcare credits? 10:37:42      17 A. That's right. 10:37:45      18 Q. So I take it then in mid-to-late 10:37:56      19 1993 when you were made manager of the 10:37:58      20 Healthcare Group in the Surveillance 10:38:01      21 Department, at that point in time you were 10:38:03      22 given full responsibility for monitoring all 10:38:05      23 of the healthcare credits that MBIA had at 10:38:07      24 that time? 10:38:09      25 A. That's right. 10:38:10</p>	<p>Page 27</p> <p>1 KARLEEN CARLSON STRAYER 10:39:20      2 Did you hire any other analyst in 10:39:21      3 this rough time frame, late 1993 to 1994? 10:39:24      4 A. 1994... I can't recall every one. 10:39:28      5 It was primarily hiring not from the outside 10:39:35      6 but internal moves; so, '93, '94, I suspect I 10:39:37      7 probably ended up with five or so people in my 10:39:44      8 group; maybe more. At one point I had 10 or 10:39:47      9 12 in my group but I don't -- I'm sure it 10:39:50      10 wasn't that many in '93, '94. 10:39:54      11 Q. At what point in time did you have 10:39:57      12 10 or 12 in your group? 10:39:58      13 A. Probably around '98 or '99. And I 10:40:01      14 also had responsibilities for some groups 10:40:08      15 besides healthcare, so that's part of the 10:40:11      16 reason my group was larger. 10:40:14      17 Q. What are the other reasons why 10:40:17      18 your group expanded at this point in time? 10:40:19      19 A. Meaning other than the additional 10:40:23      20 sectors that were being followed? 10:40:26      21 Q. Yes. Yes. 10:40:28      22 A. I think that because of the 10:40:29      23 concern that MBIA had over certain credits in 10:40:34      24 the portfolio, there was additional staffing 10:40:38      25 added to my group. 10:40:41</p>

<p style="text-align: right;">Page 30</p> <p>1 KARLEEN CARLSON STRAYER 10:40:41      2 Q. Do you recall any of those credits 10:40:46      3 during this time frame MBIA had additional 10:40:49      4 concern about? 10:40:54      5 A. In '93 or '94? 10:40:54      6 Q. No, I'm sorry, I thought you were 10:40:55      7 talking about '98. 10:40:56      8 A. Oh, '98, '99... There were a 10:40:57      9 number of credits in '98 and '99. I mean, 10:41:05      10 certainly in '98, the AHERF credit was first 10:41:08      11 and foremost, and a number of other credits 10:41:12      12 would have been very aggressively tracked, as 10:41:15      13 well; I don't know if you're looking for names 10:41:19      14 or. 10:41:22      15 Q. What were those other credits that 10:41:22      16 were being aggressively tracked as well in 10:41:24      17 this time frame? 10:41:26      18 MS. HACKETT: I don't know whether 10:41:27      19 or not you've been -- I don't know the terms 10:41:28      20 of the protective order in this case but I 10:41:30      21 think that when she discloses any names of 10:41:34      22 other customers, which I think are wholly 10:41:35      23 irrelevant to this, it should be put under the 10:41:39      24 terms of the protective order in this case, so 10:41:42      25 that this portion of the transcript is marked 10:41:43</p>	<p style="text-align: right;">Page 32</p> <p>1 KARLEEN CARLSON STRAYER 10:42:21      2 MR. KRUSKO: I do have it but I 10:42:22      3 don't want to take a break now and look at it 10:42:23      4 because I would like to continue with the 10:42:25      5 questions. 10:42:26      6 MS. HACKETT: I can't do that. I 10:42:27      7 mean, you're asking her for customer names 10:42:28      8 that have credit issues. 10:42:31      9 MR. KRUSKO: I'm not asking her to 10:42:33      10 disclose that. I'm just asking her for the 10:42:35      11 types of clients. Disclosure is another 10:42:45      12 issue; I'm telling you, we can put that under 10:42:45      13 the protective order. 10:42:45      14 MS. HACKETT: Okay, I don't draw 10:42:45      15 the same distinction between disclosure and 10:42:45      16 testify. To me, once she names them in the 10:42:45      17 public record, they're disclosed, and I would 10:42:45      18 like to have them under a protective order. I 10:42:46      19 appreciate your representation but I don't 10:42:48      20 know what the terms of those are. 10:42:49      21 MR. KRUSKO: Sure. Okay. Let's do 10:42:50      22 this: I will come back to this line of 10:42:51      23 questioning and we'll work it out during the 10:42:54      24 break. 10:42:57      25 MS. HACKETT: Sure. Perfect. 10:42:57</p>
<p style="text-align: right;">Page 31</p> <p>1 KARLEEN CARLSON STRAYER 10:41:43      2 "confidential." 10:41:47      3 MR. KRUSKO: Okay. 10:41:47      4 MS. HACKETT: Great. 10:41:48      5 MR. KRUSKO: I'm happy to do that 10:41:49      6 because; obviously, relevancy isn't a viable 10:41:51      7 objection. 10:41:51      8 MS. HACKETT: I'm just happy -- 10:41:53      9 MR. KRUSKO: I'm happy to include 10:41:55      10 whatever clients' she names in this time frame 10:41:56      11 under whatever applicable provisions of the 10:41:58      12 protective order that you would like them to 10:42:01      13 be included under. 10:42:03      14 MS. HACKETT: Well, is there a 10:42:04      15 protective order entered in this case? I'm 10:42:04      16 assuming there is. 10:42:07      17 MR. KRUSKO: Why don't I suggest 10:42:08      18 this? Why don't I suggest that I ask her my 10:42:09      19 questions along these lines and during the 10:42:14      20 break we can take a look at the protective 10:42:14      21 order and maybe we can make a stipulation off 10:42:17      22 the record and then go back on the record. 10:42:17      23 MR. WITTEN: There is a protective 10:42:19      24 order that covers the depositions and I don't 10:42:19      25 have it with me. 10:42:21</p>	<p style="text-align: right;">Page 33</p> <p>1 KARLEEN CARLSON STRAYER 10:42:57      2 Q. Am I correct, then, that the 10:42:59      3 group, you know, the Healthcare Group in the 10:43:00      4 Surveillance Department went from roughly five 10:43:03      5 employees in the '92/'93 time frame to about 10:43:05      6 78 employees in the mid-1990s to about ten to 10:43:10      7 12 employees in the 1998/1999 time frame? 10:43:13      8 MR. WITTEN: Objection. 10:43:19      9 A. That would roughly be what the 10:43:21      10 numbers were, I can't recall exactly. And 10:43:24      11 also, to be more specific, the ten to 12 in 10:43:27      12 the later years was also because we were 10:43:30      13 monitoring not only healthcare but student 10:43:34      14 loans and housing, so we had additional 10:43:35      15 responsibilities in addition to healthcare. 10:43:38      16 Q. When did your group receive 10:43:41      17 responsibility for student loans and housing? 10:43:45      18 A. Actually, I believe it was -- 10:43:50      19 actually it was probably more like 2001, 2000 10:43:57      20 to 2001. But also, earlier than that they 10:44:01      21 started including something that was called 10:44:16      22 the "pool group," so there was -- so the 10:44:18      23 student loans and housing came in 2000 to 10:44:21      24 2001, probably early 2001; the pool group came 10:44:24      25 prior to that time, and that probably would 10:44:28</p>

<p style="text-align: right;">Page 146</p> <p>1 KARLEEN CARLSON STRAYER 14:35:06      2 concerned in the 1996 to 1998 time frame with 14:35:10      3 the costs of the physician practice 14:35:16      4 acquisitions versus the annual costs in 14:35:18      5 supporting the expenses of those practices? 14:35:22      6 A. That's probably too strong of a 14:35:25      7 statement. I don't -- I mean, we were very 14:35:27      8 focused on the capital costs but I don't -- I 14:35:30      9 don't think we would have ignored the expense 14:35:33      10 side of the equation either. 14:35:35      11 Q. So you were very concerned, "you" 14:35:38      12 being MBIA, with both components of the 14:35:40      13 support that DVOG and AGH, the AGH Obligated 14:35:42      14 Group made to AIHG? 14:35:48      15 A. We were concerned with the amount 14:35:51      16 of support in general that was being required 14:35:53      17 for those physician practices; I don't know 14:35:58      18 that we were specifically differentiating 14:36:01      19 between the two types of support. 14:36:04      20 Q. Is it your recollection that in 14:36:06      21 this rough time frame, calendar 1995 and 14:36:08      22 calendar 1996, that the support provided by 14:36:13      23 the DVOG and the AGH Obligated Group 14:36:16      24 increased? 14:36:19      25 A. I don't know. They were on 14:36:23</p>	<p style="text-align: right;">Page 148</p> <p>1 KARLEEN CARLSON STRAYER 14:37:51      2 condition of the DVOG entities in the months 14:37:56      3 leading up to the DVOG offering? 14:37:59      4 MR. WITTEN: Objection. 14:38:01      5 MR. KRUSKO: Just out of curiosity, 14:38:03      6 what's your objection? 14:38:05      7 MR. WITTEN: I didn't understand 14:38:06      8 the question because there were too many time 14:38:06      9 periods. 14:38:08      10 MR. KRUSKO: Okay. I appreciate 14:38:09      11 it. 14:38:10      12 Q. Again, after the DVOG bond 14:38:12      13 offering, when you, as manager of the 14:38:13      14 Healthcare Group in the Surveillance 14:38:19      15 Department were responsible for the monitoring 14:38:22      16 functions with respect to DVOG, in that time 14:38:23      17 frame, do you recall discussing with anyone at 14:38:25      18 MBIA the condition of the DVOG entities in the 14:38:28      19 months leading up to the DVOG offer? 14:38:31      20 A. We did review -- subsequent to the 14:38:41      21 bond offering, the audited financial reports 14:38:42      22 came out on DVOG and the analyst who was 14:38:46      23 assigned to review the credit reviewed those 14:38:53      24 financial reports, and expressed concern over 14:38:55      25 the transfers to the physician group; so, 14:38:58</p>
<p style="text-align: right;">Page 147</p> <p>1 KARLEEN CARLSON STRAYER 14:36:23      2 fiscal-year basis, so we would have been 14:36:28      3 looking at their financials on a fiscal-year 14:36:31      4 basis, and I actually wasn't reviewing the 14:36:33      5 credit at all in 1995, I, personally was not. 14:36:38      6 Q. The very last sentence that 14:36:44      7 appears on page A-9 of Exhibit 408 states: 14:36:48      8 For the ten-month period ended April 30, 1996, 14:36:52      9 the total of such support is 38,256,000; do 14:36:55      10 you see that? 14:37:02      11 A. Yes. 14:37:02      12 Q. Is that consistent with your 14:37:02      13 recollection as to the level of support that 14:37:03      14 AIHG was receiving in this time frame? 14:37:06      15 MR. WITTEN: Objection. 14:37:13      16 A. I don't have a specific numeric 14:37:14      17 recollection of the amount of support. 14:37:15      18 Q. At any point in time after the 14:37:27      19 DVOG bond offering, did you discuss with 14:37:32      20 anyone at MBIA the condition of the parent 14:37:34      21 company, AHERF, the parent company, in the 14:37:42      22 months leading up to the DVOG offer? 14:37:44      23 A. No. 14:37:46      24 Q. Did you ever again after the DVOG 14:37:48      25 bond offering discuss with anyone at MBIA the 14:37:51</p>	<p style="text-align: right;">Page 149</p> <p>1 KARLEEN CARLSON STRAYER 14:38:58      2 given that some of those transfers might have 14:39:02      3 occurred during the part of the year before 14:39:04      4 the bond offering, I guess the answer to your 14:39:06      5 question would be yes. 14:39:10      6 Q. Okay. Now, I appreciate that. 14:39:12      7 Let me just hopefully conclude with what 14:39:16      8 should be a simple question: 14:39:19      9 Did you ever discuss with anyone 14:39:20      10 at MBIA at any point in time the condition of 14:39:23      11 AHERF during the first half of calendar 1996? 14:39:28      12 A. Not specifically the first half 14:39:36      13 1996; I'm not sure I ever saw those numbers. 14:39:38      14 Q. And so I take it you don't recall 14:39:44      15 ever learning whether AHERF, the parent 14:39:46      16 entity, experienced financial difficulties in 14:39:49      17 April 1996? 14:39:53      18 A. No. I mean, we -- if we felt they 14:39:56      19 were having financial difficulties, we would 14:40:01      20 not have insured the credit, so clearly, we 14:40:02      21 didn't believe they were having financial 14:40:05      22 difficulties at this point in time. 14:40:08      23 Q. So it's your belief that MBIA had 14:40:12      24 learned of losses in April of 1996 at AHERF, 14:40:15      25 the parent company, that that would have been 14:40:19</p>

	Page 150		Page 152
1	KARLEEN CARLSON STRAYER 14:40:19		
2	a negative factor in terms of MBIA's decision 14:40:22		
3	to provide bond insurance? 14:40:24		
4	A. It could have been. It would 14:40:30		
5	depend, you know; it would be case-specific to 14:40:32		
6	the case and it would depend on the reason for 14:40:37		
7	the losses and the extent of the losses and 14:40:38		
8	how the rest of the system had looked and 14:40:40		
9	whole host of the factors that would go into 14:40:43		
10	our thinking on that. 14:40:46		
11	Q. Just so we're clear, is it your 14:40:47		
12	recollection that the DVOG was on a June 30 14:40:49		
13	calendar year? 14:40:51		
14	A. Yes. 14:40:52		
15	MR. WITTEN: Fiscal year. 14:40:54		
16	MR. KRUSKO: Thank you. 14:40:55		
17	A. Fiscal year. 14:40:56		
18	MR. WITTEN: They're in a different 14:40:59		
19	universe. 14:41:00		
20	Q. I believe you testified earlier 14:41:02		
21	that some time after the DVOG bond offering an 14:41:03		
22	analyst in the Healthcare Group in the 14:41:11		
23	Surveillance Department received the FY '96 14:41:12		
24	audited financial statements for the DVOG 14:41:17		
25	entities? 14:41:19		
	Page 151		Page 153
1	KARLEEN CARLSON STRAYER 14:41:19		
2	A. Yes. 14:41:20		
3	Q. Who was that analyst? 14:41:21		
4	A. Dick Heberton. 14:41:23		
5	Q. Did you assign the Delaware Valley 14:41:33		
6	Obligated Group to Mr. Heberton? 14:41:33		
7	A. Apparently I did; he was the 14:41:33		
8	analyst who tracked it, so I must have. 14:41:33		
9	Q. When you say "he was the analyst 14:41:37		
10	who tracked it," what period of time did you 14:41:39		
11	have in mind in making that statement? 14:41:44		
12	A. He tracked -- he was the first 14:41:46		
13	person that surfaced this credit to me as 14:41:51		
14	potentially experiencing financial problems, 14:41:56		
15	so that would have been whenever he received 14:41:59		
16	the financial statements for 1996. 14:42:06		
17	And then, during the early part of 14:42:09		
18	1997, he was the analyst; at some point during 14:42:13		
19	that year he transitioned to a different group 14:42:18		
20	and a different person took over, so he was 14:42:22		
21	following it very closely for at least through 14:42:25		
22	part of 1997. 14:42:29		
23	Q. What was Mr. Heberton's next 14:42:35		
24	position after he left the Healthcare Group in 14:42:37		
25	the Surveillance Department? 14:42:39		

	Page 154		Page 156
1        KARLEEN CARLSON STRAYER	14:48:11	1        KARLEEN CARLSON STRAYER	14:50:11
2        1884?	14:48:12	2        them on to the analyst that was responsible	14:50:14
3        A. Yes.	14:48:13	3        for the particular credit?	14:50:17
4        Q. Do you recognize Exhibit 1884 as a	14:48:13	4        A. Yes.	14:50:19
5        copy of the FY '96 audited financial	14:48:16	5        Q. Did you ever contact AHERF and	14:50:22
6        statements for the Delaware Valley Obligated	14:48:20	6        direct them to send financial statements	14:50:26
7        Group, among some other documents?	14:48:24	7        directly to Mr. Heberton or another analyst	14:50:29
8        A. Yes.	14:48:25	8        working in the Surveillance Department?	14:50:33
9        Q. If you'll turn with me to the	14:48:34	9        A. I don't recall.	14:50:35
10      second page of this exhibit, do you see here a	14:48:36	10      Q. Do you remember directing anyone	14:50:39
11      letter dated October 31st, 1996 from Kelly	14:48:41	11      in your staff to contact AHERF in that manner?	14:50:39
12      Mertz to Emmeline Rocha-Sinha?	14:48:48	12      A. I don't recall.	14:50:45
13      A. Yes.	14:48:50	13      Q. I believe you testified that it's	14:50:54
14      Q. In this letter, Ms. Mertz	14:48:50	14      your understanding that Mr. Heberton, on	14:50:55
15      indicates that she has provided the FY '96	14:48:52	15      reviewing these statements, was concerned	14:50:57
16      audited financial statements for the DVOG, is	14:48:56	16      about the transfers from the DVOG to Allegheny	14:51:00
17      that right?	14:48:58	17      Integrated Health Group?	14:51:06
18      A. Yes.	14:48:59	18      A. Yes.	14:51:08
19      Q. And towards the bottom of this	14:48:59	19      Q. Would you turn with me to page	14:51:22
20      letter, Ms. Rocha-Sinha has written "11/11/96	14:49:01	20      MBIA 015821, I believe it's Page 3 of the	14:51:25
21      Karleen FYR, E," is that correct?	14:49:07	21      document.	14:51:30
22      A. Yes.	14:49:11	22      Do you recognize this as the	14:51:38
23      Q. I take it "FYR" is "for your	14:49:11	23      fiscal year 1996 audited income statement for	14:51:39
24      review"?	14:49:13	24      the DVOG?	14:51:43
25      A. Yes.	14:49:14	25      A. Yes, I guess they're calling it	14:51:47
	Page 155		Page 157
1        KARLEEN CARLSON STRAYER	14:49:14	1        KARLEEN CARLSON STRAYER	14:51:47
2        Q. Do you recall receiving these	14:49:16	2        the "combined statement of operations" but	14:51:57
3        audited financial statements?	14:49:17	3        it's the income statement.	14:51:57
4        A. No, I don't recall.	14:49:20	4        Q. Do you notice the very last --	14:51:57
5        Q. Do you recall reviewing these	14:49:21	5        excuse me, the second-to-last entry to	14:51:57
6        audited financial statements?	14:49:23	6        "transfers to affiliates, net"?	14:52:01
7        A. I recall looking at them much	14:49:28	7        A. Yes.	14:52:03
8        later than this date.	14:49:29	8        Q. And listed is \$73,676,000?	14:52:03
9        Q. "Much later" meaning sometime in	14:49:33	9        A. Yes.	14:52:09
10      calendar 1997?	14:49:35	10      Q. Is it your recollection that it's	14:52:11
11      A. I believe so. I would have --	14:49:38	11      that transfer that caught Mr. Heberton's	14:52:13
12      this is something that would have gone to the	14:49:42	12      attention?	14:52:15
13      analyst that was reviewing this credit; I	14:49:44	13      A. Yes.	14:52:18
14      wouldn't preview every credit that we had on	14:49:47	14      Q. And so, Mr. Heberton was able, by	14:52:21
15      the portfolio myself.	14:49:49	15      conducting a review of the fiscal year 1996	14:52:25
16      Q. Did you have an understanding at	14:49:54	16      audited financial statements for the DVOG, to	14:52:28
17      the time why Ms. Rocha-Sinha was directing	14:49:55	17      determine that the Delaware Valley Obligated	14:52:33
18      these statements to you personally, given that	14:49:56	18      Group was transferring tens of millions of	14:52:34
19      you didn't review all the statements sent to	14:49:58	19      dollars outside the Obligated Group?	14:52:39
20      you?	14:50:01	20      A. Yes.	14:52:41
21      A. Sure. I was manager of the group	14:50:01	21      Q. And do you recall him calling	14:52:42
22      and Emmeline had no way of knowing who I had	14:50:04	22      these transfers to your attention?	14:52:43
23      assigned various credit reviews to, so she	14:50:08	23      A. Yes.	14:52:45
24      would send them all to me.	14:50:10	24      Q. And what did you do as a result?	14:52:48
25      Q. And you would, in turn, forward	14:50:11	25      A. We contacted the people at the	14:52:52

Page 158

1 KARLEEN CARLSON STRAYER 14:52:52  
 2 hospital, had multiple conversations with 14:52:55  
 3 them; at some point had visits; and internally 14:52:58  
 4 we downgraded the credit. 14:53:02  
 5 Q. When you say "hospital," I'm just 14:53:07  
 6 concerned to have a clear record because it's 14:53:09  
 7 my understanding that the Delaware Valley 14:53:11  
 8 Obligated Group was comprised of many 14:53:12  
 9 hospitals; was that your understanding? 14:53:14  
 10 A. That's true. 14:53:15  
 11 Q. Okay. So when you say "we" 14:53:16  
 12 contacted the hospital," what did you mean by 14:53:17  
 13 that? 14:53:19  
 14 A. I believe that the person we were 14:53:20  
 15 in primary contact with was Michael Martin. 14:53:22  
 16 Q. It's my understanding that 14:53:28  
 17 Mr. Martin was vice-president of AHERF's 14:53:28  
 18 Treasury Department; is that your 14:53:30  
 19 recollection? 14:53:32  
 20 A. I remember him being treasurer, 14:53:33  
 21 so; I don't know his official title. 14:53:36  
 22 Q. Do you recall any contact or 14:53:40  
 23 communication you had with Mr. Martin in the 14:53:43  
 24 November 1996 time frame concerning these 14:53:46  
 25 transfers to affiliates? 14:53:48

Page 160

1 KARLEEN CARLSON STRAYER 14:54:57  
 2 dialogue was primarily of him explaining the 14:55:00  
 3 transactions, the reasons for the 14:55:04  
 4 transactions, and what was happening. 14:55:06  
 5 Ultimately, they agreed to stop 14:55:09  
 6 acquiring physician practices or they told us 14:55:14  
 7 they were going to stop acquiring physician 14:55:16  
 8 practices. 14:55:19  
 9 Q. But is it fair to say, then, your 14:55:20  
 10 initial contact, during your initial contacts 14:55:23  
 11 with Mr. Martin, he simply explained the 14:55:26  
 12 physician practice acquisition strategy to 14:55:31  
 13 you? 14:55:36  
 14 A. Right. And the reasons for the 14:55:37  
 15 transfer. 14:55:39  
 16 Q. Did you ask Mr. Martin for any 14:55:40  
 17 representations that additional transfers were 14:55:43  
 18 not to be made? 14:55:46  
 19 A. I'm sure we encouraged him not to 14:55:49  
 20 make additional transfers but I don't believe 14:55:52  
 21 at that point in time he was willing to do 14:55:54  
 22 that. 14:55:56  
 23 Q. When you say "I'm sure we" 14:55:57  
 24 encouraged him," is there any document that 14:55:59  
 25 reflects your encouragement to Mr. Martin that 14:56:01

Page 159

1 KARLEEN CARLSON STRAYER 14:53:48  
 2 A. We had conversations with Mike 14:53:55  
 3 Martin about these transfers; I don't know 14:53:56  
 4 that it was November; it was probably after 14:53:59  
 5 November. 14:54:02  
 6 Q. Did you express concerns to him 14:54:03  
 7 about these transfers? 14:54:05  
 8 A. Yes. 14:54:08  
 9 Q. Why? 14:54:08  
 10 A. Because they were large. 14:54:08  
 11 Q. Why would that matter? 14:54:10  
 12 A. Because it showed that there were 14:54:13  
 13 significant resources that were leaving the 14:54:16  
 14 Obligated Group, and being spent on physician 14:54:18  
 15 practices which could be a good strategy but, 14:54:22  
 16 in this case, it was costing a lot of money 14:54:27  
 17 and we thought it was very significant. 14:54:29  
 18 Q. And that was reflected fairly in 14:54:35  
 19 the audited fiscal year 1996 Delaware Valley 14:54:36  
 20 Obligated Group financial statements? 14:54:41  
 21 A. Yes. 14:54:43  
 22 MR. WITTEN: Objection. 14:54:43  
 23 Q. What was Mr. Martin's response? 14:54:45  
 24 A. I recall that -- a lot, at this 14:54:53  
 25 stage, at the very initial stages, our 14:54:57

Page 161

1 KARLEEN CARLSON STRAYER 14:56:01  
 2 AHERF not pursue additional physician practice 14:56:04  
 3 acquisitions? 14:56:10  
 4 A. I don't recall. 14:56:10  
 5 Q. And do you recall specifically 14:56:13  
 6 what you told Mr. Martin in an attempt to 14:56:14  
 7 dissuade AHERF from pursuing additional 14:56:18  
 8 physician practice acquisitions? 14:56:22  
 9 A. No, I don't. 14:56:24  
 10 Q. So you don't have any basis for 14:56:27  
 11 saying that you're sure that you told him that 14:56:28  
 12 MBIA would prefer that AHERF not engage in 14:56:31  
 13 additional physician practice acquisitions? 14:56:34  
 14 MR. WITTEN: Objection. 14:56:36  
 15 A. I -- the basis is that we had 14:56:40  
 16 downgraded a credit and I believe we 14:56:42  
 17 downgraded it to the caution list, which was a 14:56:45  
 18 sign of what we felt was financial distress; 14:56:48  
 19 the primary reason was the large amounts that 14:56:50  
 20 were being transferred over to the physician 14:56:53  
 21 practice, and given that we had these 14:56:55  
 22 conversations with Mike, I -- I remember 14:57:00  
 23 having the conversations; I cannot tell you 14:57:07  
 24 the specifics of the conversations, but this 14:57:08  
 25 was the big issue, initially, that we were 14:57:10

	Page 162		Page 164
1        KARLEEN CARLSON STRAYER                          14:57:10		1        KARLEEN CARLSON STRAYER                          14:59:29	
2 discussing with them and the reason for our                          14:57:12		2 not trigger the debt service coverage ratio?                  14:59:32	
3 initial concern.    14:57:16		3        A. Because of the way that definition                  14:59:35	
4        Q. Do you have an understanding as to                  14:57:20		4 is defined in the bond documents.                                  14:59:37	
5 what a "below-the-line entry" is?                                  14:57:23		5        Q. And these are bond documents that                  14:59:39	
6        A. Yes.    14:57:28		6 MBIA either drafted or approved in connection                  14:59:42	
7        Q. And what's your understanding of                  14:57:28		7 with its decision to provide insurance for the                  14:59:44	
8 that term?    14:57:29		8 fixed rate DVOG bonds?    14:59:50	
9        A. "Below-the-line," my understanding                  14:57:30		9        A. Yes.    14:59:53	
10 is that would be an entity that would not                          14:57:32		10      Q. Did you, as the manager of the                  14:59:56	
11 affect the net income of the entity.                                  14:57:35		11 Healthcare Group in the Surveillance                          14:59:58	
12        Q. Did you say "an entry that would                  14:57:40		12 Department, view the drafting of the debt                          15:00:00	
13 affect the net income of an entity"?                          14:57:42		13 service coverage ratio as a problem for that                  15:00:04	
14        A. Right, an item, an expense or                          14:57:44		14 reason?    15:00:08	
15 something like that.    14:57:47		15        A. It -- that definition is very                          15:00:10	
16        Q. So looking here at Page 3 of                          14:57:49		16 common in the industry and remains so today;                  15:00:13	
17 Exhibit 1884, where would the line be?                          14:57:53		17 so while it wasn't our preferred way of                          15:00:17	
18        A. Well, you could say it is either                  14:58:00		18 calculating or, or measuring the financial                          15:00:19	
19 the net loss of 1.3 million or you could also                  14:58:04		19 strength, it is, it is an industry standard.                  15:00:23	
20 say it's the 26.8 because those items that are                  14:58:16		20        Q. Okay. And so while it wasn't                  15:00:26	
21 after the 26.8 are one-time accounting-type                  14:58:16		21 MBIA's preferred way of measuring the                          15:00:28	
22 entries that don't affect cash or, you know,                  14:58:20		22 financial strength, it was one that MBIA                          15:00:31	
23 the true income number, or anything else.                          14:58:22		23 agreed to in connection with its decision to                  15:00:33	
24        So I believe analysts could call                          14:58:26		24 provide bond insurance to the DVOG entities?                  15:00:36	
25 either one of those numbers "below-the-line."                  14:58:28		25        A. I wouldn't say "MBIA"; I would say                  15:00:42	
	Page 163		
1        KARLEEN CARLSON STRAYER                          14:58:28			Page 165
2        Q. "Transfers to affiliates, net"                  14:58:32		1        KARLEEN CARLSON STRAYER                          15:00:42	
3 appears below the line on Page 3, under either                  14:58:35		2 me. You know, I would have preferred a                          15:00:44	
4 definition of what the "line" is, correct?                  14:58:42		3 different calculation. I can't speak to the                  15:00:48	
5        A. That's true.    14:58:44		4 new business analysts; they were perhaps                  15:00:49	
6        Q. And as a result, it doesn't have                  14:58:45		5 comfortable with it, I don't know.                          15:00:52	
7 any impact on net income before extraordinary                  14:58:48		6        Q. In this time frame, late October                  15:01:12	
8 item and change in accounting principles for                  14:58:52		7 to earlier November calendar 1996 when you                  15:01:15	
9 net loss?    14:58:57		8 discussed this issue with Mr. Heberton, and                  15:01:21	
10        A. That's true.    14:58:58		9 possibly Mr. Martin, did you contact anyone in                  15:01:24	
11        Q. Was that a concern to you as                  14:58:59		10 the Healthcare Group on the new business side                  15:01:32	
12 manager of MBIA's Healthcare Group in the                  14:59:01		11 to discuss this issue?    15:01:35	
13 Surveillance Department?    14:59:03		12        MR. WITTEN: Objection.                                  15:01:36	
14        A. Yes, it was.    14:59:04		13        A. I don't recall. I could point out                  15:01:40	
15        Q. And why was it a concern to you?                  14:59:05		14 that we did issue an Alert Report, which was                  15:01:45	
16        A. Because it clearly was a                                  14:59:08		15 disseminated to the people in the new business                  15:01:48	
17 dissipation of the financial strength of the                  14:59:12		16 Healthcare Group, that would have indicated                  15:01:51	
18 Delaware Valley Obligated Group, and yet, it                  14:59:14		17 our downgrade of the credit and our concerns.                  15:01:54	
19 would not trigger our covenant because it was                  14:59:16		18        Q. If I can show you what's been                  15:02:25	
20 below the line.    14:59:19		19 previously marked as Exhibit 1885. And if I                  15:02:27	
21        Q. When you say "our covenant," which                  14:59:20		20 could ask you at the outset, Ms. Strayer, do                  15:02:54	
22 are you referring to?    14:59:22		21 you recognize this document?    15:02:58	
23        A. The debt service coverage ratio.                  14:59:23		22        A. No.    15:02:59	
24        Q. And why would a below-the-line                  14:59:28		23        Q. Do you recall in the October 1996                  15:03:03	
25 entry such as "transfers to affiliates, net"                  14:59:29		24 time frame hearing that AHERF had requested                  15:03:06	
		25 extensions of various financial reporting                  15:03:14	

Page 174

1 KARLEEN CARLSON STRAYER 15:14:35  
 2 A. No, I did not. 15:14:35  
 3 Q. No, you did not suggest any 15:14:36  
 4 changes to the transcript? 15:14:38  
 5 A. That's correct. 15:14:39  
 6 Q. Now, I put before you Exhibit 15:14:42  
 7 2192: Do you recognize this as a copy of the 15:14:45  
 8 transcript of that day's deposition? 15:14:50  
 9 A. Yes. 15:14:55  
 10 Q. Would you turn with me to Page 83, 15:14:57  
 11 I'm going in a sort of minuscrypt format. I'm 15:15:05  
 12 going according to the page numbers that are 15:15:10  
 13 sort of in the center and they go off to the 15:15:13  
 14 right. 15:15:20  
 15 A. Okay. 15:15:20  
 16 Q. Let me, if I could, direct you to 15:15:21  
 17 your answer and then, why don't you take as 15:15:23  
 18 much time as you need to just sort of 15:15:25  
 19 familiarize yourself again with the testimony: 15:15:29  
 20 There's some questioning, rather, 15:15:36  
 21 about some financial statements and then you 15:15:38  
 22 give the testimony beginning on line 6: 15:15:40  
 23 "Well, we would like the financial 15:15:43  
 24 statements as soon as we would get them, so 15:15:44  
 25 that we are working with current information." 15:15:47

Page 176

1 KARLEEN CARLSON STRAYER 15:17:10  
 2 changed? 15:17:13  
 3 A. Well -- 15:17:19  
 4 MR. KRUSKO: Let me withdraw that, 15:17:19  
 5 let me withdraw that. I think I understand 15:17:21  
 6 where the trouble may be with that question. 15:17:22  
 7 Q. I take it you didn't raise this 15:17:25  
 8 issue with Mr. Heberton because you were 15:17:26  
 9 relying on Mr. Heberton to raise with you any 15:17:29  
 10 problems that he saw with respect to the 15:17:34  
 11 reporting requirements in the Financial 15:17:37  
 12 Guaranty Agreement? 15:17:41  
 13 MR. WITTEN: Objection. 15:17:41  
 14 A. I would have expected Dick to 15:17:44  
 15 bring to my attention if he was having concern 15:17:46  
 16 over the timeliness of the receipt of the 15:17:50  
 17 financial information; I don't know 15:17:53  
 18 specifically whether we would have been 15:17:54  
 19 focusing on the document requirements. 15:17:56  
 20 Q. But in addition to concerns about 15:18:00  
 21 the timeliness of the reporting requirements, 15:18:03  
 22 did you also expect him to call to your 15:18:07  
 23 attention potential problems that he foresaw 15:18:10  
 24 with reporting requirements based on his 15:18:15  
 25 knowledge of the financial condition of the 15:18:18

Page 175

1 KARLEEN CARLSON STRAYER 15:15:47  
 2 Do you see that? 15:15:49  
 3 A. Yes. 15:15:50  
 4 MS. HACKETT: I'm on the wrong 15:15:52  
 5 page. 15:15:54  
 6 MR. KRUSKO: 83. 15:15:55  
 7 MS. HACKETT: Okay, thank you. 15:16:00  
 8 A. Okay. 15:16:15  
 9 Q. So I take it, with respect to 15:16:18  
 10 troubled credits, MBIA would like the 15:16:23  
 11 financial statements as soon as it could get 15:16:28  
 12 them so they could work with current 15:16:31  
 13 information? 15:16:34  
 14 A. Sure. Actually, with any credit, 15:16:35  
 15 but in particular, troubled credits. 15:16:37  
 16 Q. Right. 15:16:39  
 17 So when you received -- pardon me 15:16:44  
 18 -- when you discussed with Mr. Heberton the FY 15:16:49  
 19 '96 audited financial statements from DVOG, 15:16:51  
 20 you didn't raise the issue of reporting 15:16:59  
 21 requirements? 15:17:01  
 22 A. No. 15:17:02  
 23 Q. Because you were counting on 15:17:04  
 24 Mr. Heberton to make the decision whether 15:17:05  
 25 those reporting requirements should be 15:17:10

Page 175

Page 177

1 KARLEEN CARLSON STRAYER 15:18:18  
 2 credit? 15:18:21  
 3 A. Sure. If they, if they had had 15:18:23  
 4 been outside of the bounds of what we normally 15:18:25  
 5 expect to see in this industry, it is -- it's 15:18:27  
 6 something that an analyst would look at. 15:18:32  
 7 I guess what I'm saying is that 15:18:40  
 8 the numbers that are showing up in these 15:18:41  
 9 documents are not unusually long periods of 15:18:45  
 10 times, they're within industry norms, so we 15:18:47  
 11 would have had no reason to focus on that. 15:18:50  
 12 Q. I take it industry norms -- I take 15:18:53  
 13 it by "industry norms" you mean to say that 15:19:01  
 14 there are norms in terms of reporting 15:19:04  
 15 requirements for credits that are not 15:19:06  
 16 experiencing any financial problems? 15:19:08  
 17 A. Well, we have -- these reporting 15:19:13  
 18 requirements are put into the bond documents 15:19:16  
 19 when the bonds are issued, and typically those 15:19:18  
 20 bond documents are not amended unless there's 15:19:21  
 21 a request or -- a request from the client; so, 15:19:24  
 22 it's not, it's not something we focus on 15:19:30  
 23 regularly. It goes in the documents and it is 15:19:33  
 24 what it is. But there are standards for the 15:19:35  
 25 documents that we would expect to see, yes. 15:19:37

		Page 178			Page 180
1	KARLEEN CARLSON STRAYER	15:19:37	1	KARLEEN CARLSON STRAYER	15:21:52
2	Q. Okay. And MBIA does not have the	15:19:40	2	unfolding, so I think Dick did exactly what he	15:21:57
3	power to unilaterally alter the terms of bond	15:19:42	3	should have done.	15:22:00
4	documents?	15:19:49	4	Q. Okay. Let me just make sure I'm	15:22:01
5	A. That's true.	15:19:49	5	understanding your testimony correctly:	15:22:03
6	Q. And I guess what I'm getting at	15:19:53	6	Mr. Heberton, as the analyst in	15:22:06
7	with this is when you say that these ranges	15:19:54	7	the Healthcare Group of the Surveillance	15:22:10
8	that you're seeing with respect to the request	15:19:57	8	Department, received Exhibit 1885 and	15:22:14
9	for an extension letter, those ranges are	15:19:59	9	forwarded it to Mr. Reilly?	15:22:17
10	within industry norms?	15:20:03	10	MR. WITTEN: Objection.	15:22:21
11	A. Yes.	15:20:05	11	A. No, I didn't say that.	15:22:21
12	Q. If I'm understanding your	15:20:05	12	Q. Okay.	15:22:22
13	testimony correctly.	15:20:06	13	A. I doubt, I doubt Chip Reilly even	15:22:25
14	A. Yes.	15:20:09	14	looked at those financial statements at that	15:22:27
15	Q. Okay.	15:20:09	15	time.	15:22:32
16	And what I'm asking you, though,	15:20:11	16	Q. Okay. But I'm sorry, perhaps	15:22:32
17	is if in light of what you saw weeks later in	15:20:12	17	we're on different pages?	15:22:34
18	the financial statements, you were counting on	15:20:15	18	A. Did I misunderstand the question?	15:22:35
19	Mr. Heberton to call to your attention	15:20:18	19	Q. We may be on different pages.	15:22:37
20	potential problems he saw with those reporting	15:20:21	20	A. Okay.	15:22:39
21	requirements?	15:20:24	21	Q. If you could take out Exhibit	15:22:39
22	A. I guess that's assuming that he	15:20:31	22	1885.	15:22:41
23	saw problems with reporting requirements, so	15:20:33	23	A. Okay.	15:22:43
24	given how quickly he was looking at the	15:20:43	24	Q. Okay? How is it that this	15:22:44
25	financial statements -- I don't know that	15:20:44	25	document arrived on Mr. Reilly's desk, so to	15:22:49
		Page 179			Page 181
1	KARLEEN CARLSON STRAYER	15:20:44	1	KARLEEN CARLSON STRAYER	15:22:49
2	that's something that would have even	15:20:46	2	speak, for his signature?	15:22:56
3	registered at that point in time. This was	15:20:55	3	MR. WITTEN: Objection.	15:22:59
4	not really outside the bounds of, of what we	15:20:55	4	Q. Because the letter's addressed to	15:23:00
5	would have expected.	15:20:55	5	Emmeline Rocha-Sinha, correct?	15:23:01
6	Q. So when you say "given how quickly	15:20:58	6	A. Yes.	15:23:03
7	he was looking at the financial statements,"	I 15:20:59	7	Q. So it wouldn't have gone to	15:23:06
8	take it you were under the impression that	15:21:02	8	Mr. Reilly as a function of how MBIA delivers	15:23:08
9	Mr. Heberton was conducting a cursory review	15:21:05	9	its mail, correct?	15:23:13
10	of the audited FY '96 DVOG financial	15:21:09	10	A. That's correct.	15:23:15
11	statements?	15:21:12	11	Q. So do you have any understanding	15:23:16
12	A. No, no. By "quickly," I meant	15:21:13	12	as to how it would have went to Mr. Reilly	15:23:17
13	timely, not how fast he did it. I meant the	15:21:16	13	given that you're the manager of the	15:23:20
14	timeliness in terms of the fact that the	15:21:20	14	Healthcare Group in the Surveillance	15:23:22
15	audits -- this transaction had very recently	15:21:23	15	Department at this time?	15:23:25
16	closed. We would have had no reason to	15:21:29	16	A. Emmeline would have sent it either	15:23:29
17	anticipate that there was a problem with this	15:21:30	17	down to my group or to the Waivers and	15:23:29
18	credit, and getting the financial statements	15:21:33	18	Consents Group; more likely my group.	15:23:34
19	of what we assumed to be a healthy credit by	15:21:36	19	Q. So it's more likely than not that	15:23:36
20	November of that year would not have been	15:21:39	20	Mr. Heberton saw this document?	15:23:39
21	outside the norm.	15:21:41	21	MR. WITTEN: Objection.	15:23:42
22	And the fact that Dick looked at	15:21:42	22	Q. You just testified "more likely my	15:23:44
23	them and we downgraded it, I believe by	15:21:44	23	group."	15:23:46
24	February, is a very, to me, a very proactive	15:21:47	24	A. Right.	15:23:46
25	response to the financial situation as it was	15:21:52	25	Q. And my understanding is that	15:23:48

	Page 190		Page 192	
1	KARLEEN CARLSON STRAYER	15:43:18	1 KARLEEN CARLSON STRAYER	15:47:36
2	wouldn't be concerned; if it was 60 percent, I	15:43:20	2 page of the entity, 1887, the new rating, the	15:47:36
3	would be.	15:43:22	3 stand-alone rating is listed as 6B; do you see	15:47:36
4	Q. If it were 60 percent and you were	15:43:24	4 that?	15:47:36
5	concerned, would you take a look at the	15:43:26	5 A. The rating, 6B?	15:47:36
6	reporting requirements?	15:43:31	6 Q. Yes.	15:47:36
7	A. No. No.	15:43:33	7 A. Yes, I see it.	15:47:36
8	Q. I believe you testified that	15:43:41	8 Q. I'm just crossing the column and	15:47:36
9	shortly after the FY '96 audited financial	15:43:43	9 the row headings.	15:47:36
10	statements were received by MBIA, MBIA	15:43:49	10 A. I see that.	15:47:36
11	downgraded the DVOG to its caution list?	15:43:53	11 Q. And the previous rating was 4B and	15:47:36
12	A. Yes.	15:43:57	12 a date affixed there, 5/23/96?	15:47:36
13	Q. What was MBIA's caution list at	15:43:59	13 A. Yes.	15:47:36
14	this point in time?	15:44:02	14 Q. So this is the downgrade	15:47:36
15	A. That was the equivalent of a	15:44:03	15 announcement that you were referring to	15:47:36
16	six-rating in our rating scale, and credits	15:44:05	16 earlier?	15:47:36
17	that went on to the caution list were under --	15:44:10	17 A. This is the downgrade, this is the	15:47:36
18	were credits for which we had concern	15:44:15	18 form of the downgrade. In terms of the	15:47:36
19	sufficient that we began monitoring them more	15:44:17	19 announcement, that would have been a different	15:47:44
20	frequently.	15:44:21	20 form, but this -- this is Dick's analysis of	15:47:44
21	Q. More frequently than no later than	15:44:26	21 the credit, so this was part of it.	15:47:47
22	once a year?	15:44:27	22 Q. So this document reflects the fact	15:47:49
23	A. Yes.	15:44:29	23 that MBIA's Surveillance Department is	15:47:53
24	Q. Let me show you what's been	15:44:42	24 lowering its internal rating on this credit?	15:47:56
25	previously marked as Exhibit 1887.	15:44:44	25 A. Yes.	15:47:59
	Page 191		Page 193	
1	KARLEEN CARLSON STRAYER	15:44:44	1 KARLEEN CARLSON STRAYER	15:47:59
2	Ms. Strayer, do you recognize	15:45:31	2 Q. Do you see the row "To: File" and	15:48:00
3	Exhibit 1887?	15:45:32	3 then there's a file listed after that? On the	15:48:04
4	A. I recognize the form that we were	15:45:35	4 top left-hand corner of the first page.	15:48:08
5	using at that time.	15:45:39	5 A. Oh, yes, um-hum.	15:48:11
6	Q. This document is entitled "MBIA	15:45:41	6 Q. Do you have an understanding as to	15:48:13
7	Insured Portfolio Management Department,	15:45:44	7 which file this document was directed?	15:48:15
8	Hospital Rating & Review Form."	15:45:47	8 A. It's our -- it was our	15:48:19
9	A. Yes.	15:45:50	9 surveillance files.	15:48:21
10	Q. I take it the Hospital Rating &	15:45:50	10 Q. Who had access to this document at	15:48:22
11	Review Form was something that MBIA used in	15:45:55	11 this point in time, if you know?	15:48:26
12	its usual course of business at this time?	15:46:00	12 A. Probably Dick and myself. Like I	15:48:30
13	A. Yes.	15:46:03	13 said, there was a different document that was	15:48:33
14	Q. And what was the purpose of this	15:46:04	14 disseminated throughout the organization, so	15:48:35
15	hospital unit rating and review form?	15:46:06	15 it would have been a more concise analysis	15:48:37
16	A. This is simply the form that the	15:46:10	16 than what would be in this document.	15:48:41
17	analysts filled out as they rated a credit,	15:46:13	17 Q. The document that you just made	15:48:43
18	and a copy went into our files.	15:46:17	18 reference to, was that the Alert Report?	15:48:45
19	Q. Is it your recollection that this	15:46:23	19 A. Yes.	15:48:48
20	document dated February 28th, 1997, is the	15:46:26	20 Q. So the Alert Report that was	15:48:48
21	first rating that was done by MBIA's	15:46:30	21 disseminated, when you say "throughout the	15:48:50
22	Surveillance Department after the June 1996	15:46:35	22 organization," all of MBIA or just the	15:48:52
23	DVOG bond offering?	15:46:38	23 Healthcare Group in the Surveillance	15:48:55
24	A. I believe so.	15:46:41	24 Department and on the new business side or	15:48:58
25	Q. If you turn with me to the first	15:47:36	25 what do you mean by that?	15:48:59

	Page 194		Page 196
1        KARLEEN CARLSON STRAYER                          15:48:59		1        KARLEEN CARLSON STRAYER                          15:51:19	
2        A. It was a pretty wide distribution 15:49:01		2 paragraph states: "Most of the members were 15:51:20	
3 list. Most of senior management would have 15:49:02		3 very lack lustre performers prior to their 15:51:22	
4 been included, the new business healthcare 15:49:06		4 affiliation with AHERF, with fairly weak 15:51:26	
5 analysts would have been included, 15:49:06		5 balance sheets." Do you see that statement? 15:51:29	
6 reinsurance, legal, the rest of the portfolio 15:49:10		6        A. Yes.    15:51:31	
7 management, it was a broad distribution list. 15:49:13		7        Q. Did you concur in the statements 15:51:36	
8        Q. This document, 1887, was for the 15:49:16		8 that Mr. Heberton made in this document? 15:51:38	
9 use of the insured portfolio management 15:49:19		9        A. Well, Dick was an experienced 15:51:43	
10 department? 15:49:23		10 analyst and I would have read this and would 15:51:46	
11        A. Yes.    15:49:23		11 have not had any reason to, to doubt what he 15:51:49	
12        Q. Who made the decision to downgrade 15:49:23		12 was saying.    15:51:53	
13 the DVOG from 4B to 6B? 15:49:26		13        Q. So when you testified earlier 15:51:56	
14        A. Dick and I would have talked about 15:49:31		14 about the underlying financial condition of 15:51:58	
15 it and decided upon it, together. 15:49:33		15 entities that were collected into a 15:52:02	
16        Q. Ultimately, though, in this time 15:49:38		16 newly-formed obligated group, and you were 15:52:06	
17 frame, February of 1997, was a downgrade such 15:49:40		17 discussing generally how you would look to the 15:52:16	
18 as this within your discretion as manager in 15:49:47		18 relative health of those entities, it seems 15:52:18	
19 the Healthcare Group and the Surveillance 15:49:51		19 here that Mr. Heberton is clearly stating that 15:52:21	
20 Department? 15:49:51		20 the DVOG entities were "rather lack lustre 15:52:24	
21        A. Yes.    15:49:53		21 performers prior to their affiliation with 15:52:29	
22        Q. Did you follow any guidelines in 15:49:53		22 AHERF with fairly weak balance sheets," 15:52:34	
23 deciding how far down to downgrade a credit? 15:49:55		23 correct?    15:52:36	
24        A. We had very general guidelines in 15:50:05		24        A. Yes.    15:52:36	
25 terms of what the different rating categories 15:50:07		25        Q. So this is an example of the type 15:52:37	
	Page 195		Page 197
1        KARLEEN CARLSON STRAYER                          15:50:07		1        KARLEEN CARLSON STRAYER                          15:52:37	
2 meant and I would have felt that, given those 15:50:10		2 of financial difficulties that you were 15:52:41	
3 parameters, that the characteristics of this 15:50:13		3 testifying about earlier?                                  15:52:42	
4 credit were appropriate for a 6 rating. 15:50:16		4        A. Well, it doesn't necessarily say 15:52:50	
5        Q. And a 6 rating is equivalent to 15:50:22		5 "financial difficulties." It says "lack 15:52:51	
6 the lowest investment grade rating? 15:50:26		6 lustre."    15:52:55	
7        A. That's right.    15:50:29		7        Q. In a case such as this where a 15:53:06	
8        Q. And a B implies a stable trend? 15:50:30		8 newly-formed obligated group was comprised of 15:53:09	
9        A. Yes, it does.    15:50:34		9 members, most of which were rather lack lustre 15:53:13	
10        Q. Will you turn with me to the 15:50:43		10 performers with fairly weak balance sheets, 15:53:16	
11 second page of Exhibit 1887. The paragraph 15:50:44		11 did you view it appropriate that the 15:53:19	
12 beginning, the full paragraph beginning 15:50:53		12 Surveillance Department engage in additional 15:53:22	
13 immediately under the subheading 15:50:55		13 vigilance with respect to monitoring efforts? 15:53:26	
14 "St. Christopher's Hospital for Children," 15:50:58		14        A. Well, we did, based on the 15:53:31	
15 begins "This Obligated Group," do you see 15:51:00		15 financial statements that we had already seen 15:53:33	
16 that? 15:51:02		16 at this point in time; I don't know that it 15:53:35	
17        A. Yes.    15:51:03		17 had anything to do with the fact that the 15:53:37	
18        Q. And that sentence states: "This 15:51:03		18 obligated group was new or the history of 15:53:39	
19 Obligated Group was brought together by AHERF 15:51:06		19 those entities had to do with the, the 15:53:42	
20 to create a strong integrated delivery system 15:51:07		20 financial performance as we saw in their 15:53:46	
21 in the Philadelphia area in order to gain a 15:51:10		21 latest set of statements; so it was, it was 15:53:48	
22 competitive advantage in negotiating for 15:51:14		22 very real-time issue for us.                                  15:53:51	
23 managed care contracts." 15:51:16		23        Q. But one of the goals of MBIA's 15:53:56	
24        A. Yes, I see it.    15:51:18		24 Surveillance Department is to intervene as 15:53:59	
25        Q. Then the last sentence of this 15:51:19		25 early as possible and try to correct problems 15:54:05	

	Page 198		Page 200
1        KARLEEN CARLSON STRAYER                          15:54:05 2        it foresees with a troubled credit, correct?      15:54:07 3        A. That's true.    15:54:09 4        MS. HACKETT: Objection, asked and                15:54:10 5        answered.    15:54:11 6        Q. So when a newly-formed obligated                15:54:14 7        group is comprised of entities that are lack      15:54:17 8        lustre performers, did you believe in this        15:54:20 9        time frame, as manager, that there should have    15:54:23 10      been additional vigilance from the point in        15:54:26 11      time that the credit fell within the                 15:54:30 12      responsibilities of the Surveillance                15:54:35 13      Department?    15:54:36 14      MR. WITTEN: Objection.                                15:54:37 15      MS. HACKETT: Objection; asked and                15:54:37 16      answered.    15:54:39 17      MR. KRUSKO: I don't think it has                 15:54:40 18      because what I'm getting at is the DVOG bonds    15:54:41 19      are offered in June of 1996, correct?                15:54:45 20      A. That's right.                                        15:54:50 21      Q. Okay. At what point in time did                15:54:51 22      monitoring those bonds become the function of    15:54:54 23      the Surveillance Department?                        15:54:57 24      A. Immediately after the bond --                 15:54:59 25      after the transaction closed.                        15:55:00		1        KARLEEN CARLSON STRAYER                          15:56:05 2        fact that a transaction had just closed with a    15:56:09 3        new obligated group, I would have been under    15:56:11 4        the impression, accurately, it appears, that      15:56:14 5        there was an extensive analysis made in May of 15:56:16 6        1996.    15:56:22 7        By June, July, August 1996, there,                15:56:24 8        frankly, was nothing for us to look at in        15:56:27 9        addition to what our new business analyst had    15:56:29 10      reviewed; so there was very little we could do    15:56:32 11      until we got additional financial information. 15:56:35 12      We also would have been under the                15:56:39 13      assumption that, you know, given the 4B rating 15:56:41 14      on the transaction, that there was no                15:56:45 15      impending crisis of any sort; so, the fact        15:56:48 16      that we, as soon as we got the financial        15:56:51 17      statements, we quickly looked at them and made 15:57:01 18      the decision to downgrade was, I think, a, a    15:57:01 19      great example of how proactive we were on this 15:57:01 20      particular credit.                                        15:57:04 21      This was a very unusual time frame 15:57:07 22      or type of occurrence within our organization. 15:57:10 23      Q. I'm sorry, I'm not following what                15:57:18 24      you meant by "this was a very unusual time        15:57:20 25      frame or type of occurrence within our                15:57:23	
	Page 199		Page 201
1        KARLEEN CARLSON STRAYER                          15:55:00 2        Q. Okay. It's my understanding,                 15:55:03 3        based on your testimony, that the Surveillance 15:55:06 4        Department didn't attach any particular extra 15:55:07 5        vigilance to monitoring that credit until        15:55:11 6        after the fiscal year 1996 audited financial 15:55:14 7        statements for DVOG came in in November of    15:55:16 8        1996?    15:55:20 9        A. That's true.                                        15:55:20 10      Q. Okay. And what I'm asking you is, 15:55:21 11      do you think that the Surveillance Department 15:55:24 12      should have attached additional vigilance to    15:55:26 13      its monitoring efforts beginning in June 1996, 15:55:29 14      immediately after the DVOG bonds were offered? 15:55:35 15      MS. HACKETT: And I believe that                 15:55:38 16      has been asked and answered and I object, but 15:55:39 17      you can answer.                                        15:55:40 18      A. When, when MBIA underwrites                 15:55:43 19      credits, they undertake a very extensive due 15:55:46 20      diligence process and there had been an        15:55:48 21      extremely extensive due diligence process done 15:55:50 22      in May to, you know, to prepare for the vote 15:55:52 23      that was taken, that represented the decision 15:55:57 24      to ensure the DVOG bonds; so, as manager of    15:56:01 25      the Surveillance Group, when I -- despite the 15:56:05	1        KARLEEN CARLSON STRAYER                          15:57:23 2        organization."                                        15:57:24 3        A. Because we -- our mandate for                15:57:25 4        healthy credit was to review those credits at 15:57:31 5        least once a year. If the new business        15:57:34 6        analyst had done a very extensive review in 15:57:36 7        May 1996, by our own, you know, surveillance 15:57:38 8        process, we wouldn't necessarily have had to 15:57:42 9        look at that credit again until May of 1997. 15:57:46 10      It's -- it seems obvious to me                 15:57:49 11      that the reason we looked at it prior to May 15:57:52 12      1997 was the financial statements came out, 15:57:55 13      and because the audits came out we looked at 15:57:58 14      them on a, on a pretty quick basis and noticed 15:58:00 15      the large transfers, which was why Dick        15:58:06 16      brought that to my attention.                        15:58:10 17      Q. Okay.    15:58:11 18      A. It is unusual that a credit                 15:58:12 19      immediately after the underwriting would show 15:58:14 20      that level of, you know, of problem, a \$70    15:58:16 21      million transfer, basically, that, that's very 15:58:22 22      unusual.    15:58:26 23      Q. Well, isn't that all the more                15:58:26 24      reason to engage in additional vigilance?        15:58:27 25      A. Absolutely.                                        15:58:30		

Page 202

1 KARLEEN CARLSON STRAYER 15:58:30  
 2 Q. Okay. 15:58:31  
 3 A. And we did. 15:58:31  
 4 Q. Okay. 15:58:32  
 5 When you say that "MBIA engaged in 15:58:35  
 6 extensive due diligence efforts," did you 15:58:38  
 7 participate in any due diligence efforts with 15:58:40  
 8 respect to the DVOG entities? 15:58:42  
 9 A. You mean prior to the -- 15:58:44  
 10 Q. Prior to the bond offering. 15:58:46  
 11 A. No, I did not. 15:58:48  
 12 Q. And when you say "there was 15:58:49  
 13 nothing to look at after the DVOG bonds were 15:58:50  
 14 offered in June 1996," did MBIA request 15:58:54  
 15 unaudited financial statements on a monthly 15:59:00  
 16 basis going forward after June 1996? 15:59:03  
 17 A. No, we did not. 15:59:06  
 18 Q. Are you aware of anything that 15:59:07  
 19 would have prevented MBIA from making such a 15:59:09  
 20 request? 15:59:11  
 21 A. That would have prevented us from 15:59:16  
 22 making that request? 15:59:17  
 23 Q. Yes. I'm -- 15:59:19  
 24 A. No, we could have made that 15:59:21  
 25 request, I'm sure. 15:59:22

Page 204

1 KARLEEN CARLSON STRAYER 16:00:24  
 2 the bond issue by several months; so it is not 16:00:26  
 3 unusual that the bankers would have wanted to 16:00:29  
 4 see these done before the end of the fiscal 16:00:32  
 5 year. 16:00:34  
 6 Q. Okay. But if that occurred, you 16:00:35  
 7 wouldn't do anything about it, right? 16:00:41  
 8 MS. HACKETT: Object, if that 16:00:43  
 9 occurred. 16:00:44  
 10 MR. KRUSKO: What she just 16:00:44  
 11 described in terms of the involvement of 16:00:45  
 12 bankers in wanting to offer bonds before the 16:00:47  
 13 close of the fiscal year. 16:00:52  
 14 Q. If that occurred in this instance 16:00:53  
 15 with respect to DVOG -- 16:00:55  
 16 A. In this instance, you're correct, 16:00:57  
 17 I, I am not aware of that conversation 16:00:58  
 18 actually occurring. 16:01:01  
 19 Q. Okay. And in fact, you're not 16:01:02  
 20 aware that that actually happened in this 16:01:04  
 21 instance? 16:01:06  
 22 A. I'm not aware. Just from my 16:01:07  
 23 experience doing new business transactions, 16:01:08  
 24 I've heard that. 16:01:10  
 25 Q. Okay. If you would return with me 16:01:11

Page 203

1 KARLEEN CARLSON STRAYER 15:59:22  
 2 Q. Okay. 15:59:23  
 3 A. The obligated group would have had 15:59:23  
 4 no obligation to provide them to us but we 15:59:25  
 5 could have asked for them, yes. 15:59:28  
 6 Q. What you described with respect to 15:59:34  
 7 the bonds being offered in June of the year 15:59:37  
 8 and the DVOG entities being in June of a 15:59:39  
 9 fiscal year, that's pure happenstance, 15:59:44  
 10 correct? 15:59:47  
 11 A. Yes. 15:59:47  
 12 Q. So essentially, it's really just a 15:59:48  
 13 coincidence that this timing was as you 15:59:52  
 14 described it, which is, I think, what your 15:59:55  
 15 testimony is? 15:59:58  
 16 A. Happenstance that the bonds were 16:00:01  
 17 issued in the same month as the fiscal 16:00:02  
 18 year-end? 16:00:05  
 19 Q. Yes. 16:00:06  
 20 A. Yes, although, I suspect that 16:00:07  
 21 there was some incentive on the part of the 16:00:09  
 22 investment bankers to get them issued before 16:00:14  
 23 June 30th; otherwise, there would have been 16:00:16  
 24 the desire to include the audits in the 16:00:21  
 25 official statement and that would have delayed 16:00:24

Page 205

1 KARLEEN CARLSON STRAYER 16:01:11  
 2 to the second page of Exhibit 1887, I'm on 16:01:17  
 3 page 029894. 16:01:25  
 4 A. Okay. 16:01:28  
 5 Q. Are you there? 16:01:31  
 6 A. Yes. 16:01:33  
 7 Q. In the second-to-last paragraph, 16:01:33  
 8 reference is made to \$17 million in transfers 16:01:38  
 9 in the first quarter of fiscal year 1997? 16:01:43  
 10 A. Yes. 16:01:46  
 11 Q. I take it Mr. Heberton learned of 16:01:48  
 12 those additional transfers through review of 16:01:53  
 13 interim unaudited financial statements? 16:01:57  
 14 MS. HACKETT: Objection, lack of 16:02:01  
 15 foundation. 16:02:02  
 16 A. I don't know. It would either 16:02:05  
 17 have been that or conversations with the 16:02:06  
 18 treasurer, I assume. 16:02:09  
 19 Q. Would you turn with me to the 16:02:47  
 20 third page of Exhibit 1887. If you would just 16:02:48  
 21 take a moment to review the first paragraph, I 16:03:06  
 22 would just like to ask you some general 16:03:09  
 23 questions about it. 16:03:12  
 24 A. Okay. 16:04:06  
 25 Q. This paragraph reflects, among 16:04:15

Page 254

1 KARLEEN CARLSON STRAYER 17:09:43  
 2 determining overhead charges within a complex 17:09:49  
 3 system there is some degree of judgment that's 17:09:52  
 4 called for and it's not necessarily a black 17:09:55  
 5 and white thing because it's one entity 17:09:58  
 6 basically charging another. 17:10:00  
 7 And I think what Mr. McConnell is 17:10:04  
 8 suggesting here is that one way to move funds 17:10:06  
 9 around is to adjust the level of overhead 17:10:09  
 10 charges. 17:10:16  
 11 Q. And provided there was a rational 17:10:17  
 12 basis for doing so, Mr. McConnell had the 17:10:21  
 13 ability to do that? 17:10:25  
 14 A. I, I can't -- I don't know what 17:10:29  
 15 Mr. McConnell had the ability to do; I assume 17:10:32  
 16 he did, but. 17:10:36  
 17 Q. When Mr. Reilly and Mr. Heberton 17:10:39  
 18 say that Mr. McConnell's disregard for the 17:10:41  
 19 integrity of the individual Obligated Group's 17:10:46  
 20 financial statements was disconcerting, does 17:10:49  
 21 that reflect the fact that just as money can 17:10:51  
 22 be moved around the AHERF system to support 17:10:54  
 23 the DVOG, so, too, can money be moved out of 17:10:55  
 24 DVOG to support other obligated group's or 17:11:01  
 25 entities within the system? 17:11:03

Page 256

1 KARLEEN CARLSON STRAYER 17:12:19  
 2 four scenarios in there. Do you want to break 17:12:21  
 3 that down a little more? 17:12:22  
 4 MR. KRUSKO: Fair enough. 17:12:23  
 5 Q. One scenario that I believe is 17:12:24  
 6 covered by your statement is the statement 17:12:26  
 7 where Mr. McConnell has transferred money from 17:12:28  
 8 AGH to the DVOG? 17:12:31  
 9 A. Yes. I'm just hesitating because 17:12:33  
 10 I know that -- I believe some of the cash 17:12:37  
 11 transfers didn't originate from AGH but 17:12:40  
 12 perhaps other Eastern or Western entities, so 17:12:43  
 13 I'm just saying, using that as an example but 17:12:47  
 14 I think some money did come out of AGH. 17:12:51  
 15 Q. Conversely, Mr. McConnell could 17:12:57  
 16 have taken money from the DVOG and transferred 17:13:01  
 17 it to AGH or the AGH Obligated Group which may 17:13:04  
 18 have included other entities in the Western 17:13:11  
 19 part of Pennsylvania? 17:13:13  
 20 A. Yes. 17:13:14  
 21 Q. And there's another scenario, 17:13:14  
 22 which is Mr. McConnell can take money from 17:13:17  
 23 either the AGH or the AGH Obligated Group or 17:13:21  
 24 DVOG, so it leaves the obligated group's for 17:13:25  
 25 which MBIA had provided bond insurance? 17:13:29

Page 255

1 KARLEEN CARLSON STRAYER 17:11:03  
 2 A. That was like part of it. 17:11:05  
 3 Q. And what was the other cause of or 17:11:08  
 4 the other reason, rather, why Mr. Reilly and 17:11:10  
 5 Mr. Heberton found these statements 17:11:14  
 6 disconcerting, to the extent you know? 17:11:17  
 7 A. Well, it was, in part, likely 17:11:21  
 8 because we also insured AGH, so presuming that 17:11:23  
 9 some of this cash was coming from AGH, it was, 17:11:27  
 10 in fact, harming our other obligated group. 17:11:30  
 11 And also, I think, just the 17:11:32  
 12 fundamental premise that existed at that time; 17:11:36  
 13 that the obligated group is a separate and 17:11:39  
 14 discrete credit entity should be treated as 17:11:42  
 15 such, and not necessarily have large cash 17:11:44  
 16 transfers going in and out of it. 17:11:48  
 17 Q. So these statements imply a lot of 17:11:51  
 18 activity, I take it, that would have an impact 17:11:57  
 19 on MBIA because, as you've described, there 17:11:59  
 20 could be the robbing Peter to pay Paul 17:12:02  
 21 scenario, whereby money was taken from AGH on 17:12:05  
 22 transfers to DVOG or money it was transferred 17:12:08  
 23 from DVOG to AGH, correct; is that a correct 17:12:12  
 24 scenario? 17:12:17  
 25 MS. HACKETT: Objection, there are 17:12:19

Page 257

1 KARLEEN CARLSON STRAYER 17:13:29  
 2 A. Yes. 17:13:32  
 3 Q. All of those scenarios have 17:13:35  
 4 financial impacts for MBIA, because MBIA had 17:13:38  
 5 provided bond insurance for the DVOG bonds and 17:13:42  
 6 for bonds issued on behalf of AGH, correct? 17:13:45  
 7 A. Well, it would have a financial 17:13:49  
 8 impact for the entity that has the cash 17:13:50  
 9 flowing in and out. It wouldn't necessarily 17:13:55  
 10 have impact on MBIA unless, of course, we had 17:13:57  
 11 a bankruptcy or inability to make debt 17:14:00  
 12 service. 17:14:03  
 13 Q. Or a bond covenant? 17:14:04  
 14 A. Or a bond covenant default, yes. 17:14:06  
 15 Q. At this point in time, the DVOG 17:14:09  
 16 was experiencing financial difficulties? 17:14:11  
 17 A. Yes. 17:14:14  
 18 Q. As reflected by the Alert Report 17:14:15  
 19 that we just saw? 17:14:18  
 20 A. Yes. 17:14:21  
 21 Q. What, if any, steps did you take 17:14:24  
 22 to get to the bottom of what's being described 17:14:26  
 23 here? 17:14:29  
 24 A. We were, during this time period, 17:14:31  
 25 having very frequent conversations with Dave 17:14:33

Page 258

1 KARLEEN CARLSON STRAYER 17:14:33  
 2 McConnell and Mike Martin and, I believe, 17:14:36  
 3 other people at DVOG, primarily David, 17:14:40  
 4 Mr. McConnell and Mr. Martin. 17:14:46  
 5 We were asking for reports and, 17:14:51  
 6 again, I cannot specify the exact time frame 17:14:53  
 7 we were doing these things but we were having 17:14:57  
 8 more frequent meetings with them. 17:14:58  
 9 This was a very -- this was 17:15:09  
 10 becoming a very active remediation at this 17:15:09  
 11 point in time; there was a lot of activity 17:15:09  
 12 going on with this and a lot of many, many 17:15:09  
 13 conversations occurring. 17:15:11  
 14 Q. These statements that are 17:15:13  
 15 contained in this passage, the last paragraph 17:15:14  
 16 on the first page of Exhibit 2194, have 17:15:17  
 17 serious ramifications for MBIA, correct? 17:15:21  
 18 MR. WITTEN: Objection. 17:15:25  
 19 A. Could you clarify your question? 17:15:31  
 20 Q. Okay. This transferring around of 17:15:33  
 21 funds from one obligated group to another 17:15:41  
 22 that's described here could have serious 17:15:43  
 23 ramifications for MBIA, given that MBIA, 17:15:46  
 24 again, had insured DVOG and AGH bonds? 17:15:50  
 25 A. Well, you know, just given what 17:15:55

Page 260

1 KARLEEN CARLSON STRAYER 17:16:57  
 2 You can answer. 17:16:59  
 3 A. It's true, but those were -- I'm 17:17:02  
 4 sure that DVOG people would have called those 17:17:05  
 5 "investments," in that they -- you know, it 17:17:08  
 6 wasn't just cash being transferred out for no 17:17:11  
 7 reason, it was cash they were transferring 17:17:14  
 8 out, assuming that they would increase their 17:17:17  
 9 volume by doing so. So, you know, the 17:17:19  
 10 strategy ended up not being effective but that 17:17:22  
 11 was their plan and had their plan worked we 17:17:25  
 12 might not have been that troubled by those 17:17:28  
 13 transfers. 17:17:30  
 14 Q. My understanding is that as 17:17:34  
 15 manager of the Healthcare Group in the 17:17:37  
 16 Surveillance Department, when you were 17:17:41  
 17 confronted with the remediation, you first 17:17:41  
 18 started your responsibility to have 17:17:47  
 19 discussions with the CFO, correct? 17:17:48  
 20 A. We frequently did. 17:17:52  
 21 Q. I'm talking about yourself, 17:17:53  
 22 though, as manager? 17:17:56  
 23 A. As manager? 17:17:57  
 24 Q. Yes. 17:17:58  
 25 A. It would depend on the extent of 17:17:58

Page 259

1 KARLEEN CARLSON STRAYER 17:15:55  
 2 Dick and Chip are describing here, it's clear 17:15:58  
 3 they see this as sort of a double-edge sword 17:16:01  
 4 in that we did view at that time AGH as a 17:16:06  
 5 strong entity; and, so, the fact that they 17:16:09  
 6 were moving cash out of the West to support 17:16:12  
 7 the East, while we did not like the fact that 17:16:15  
 8 they were not -- they were sort of 17:16:18  
 9 disregarding the integrity of the obligated 17:16:19  
 10 group, if the cash transfers were going that 17:16:23  
 11 way, it did benefit us. So there was, there 17:16:24  
 12 was a positive to what they were doing. 17:16:28  
 13 Now, the risk, as you mentioned 17:16:31  
 14 earlier, is that the cash could go back out 17:16:33  
 15 and, in fact, that did eventually happen. 17:16:35  
 16 But, at this point in time, it appears that 17:16:37  
 17 they are supporting the East with the West and 17:16:41  
 18 that, that did give us a little bit of 17:16:44  
 19 comfort, I think. 17:16:46  
 20 Q. Right. But additional money was 17:16:48  
 21 being taken out of DVOG to fund the physician 17:16:49  
 22 practice acquisition strategy that was being 17:16:52  
 23 pursued by AHERF at this point in time? 17:16:54  
 24 MS. HACKETT: Objection, asked and 17:16:56  
 25 answered. 17:16:57

Page 261

1 KARLEEN CARLSON STRAYER 17:17:58  
 2 the people and the majority of the analyst 17:18:01  
 3 that was assigned to that particular credit. 17:18:03  
 4 Q. Let me ask you this more 17:18:05  
 5 generally: To the extent you received answers 17:18:06  
 6 from the CFO that you weren't happy with, was 17:18:08  
 7 it your practice, as manager of the Healthcare 17:18:11  
 8 Group in the Surveillance Department, to then 17:18:14  
 9 take the matter up with the entity's CEO? 17:18:15  
 10 A. Yes; although, I would -- it 17:18:22  
 11 wasn't necessarily that we weren't happy with 17:18:25  
 12 the answers. We, you know, as -- as we became 17:18:27  
 13 aware of more financial difficulty, it would 17:18:35  
 14 be neutral for us to sort of increase the 17:18:38  
 15 seniority of the individuals we were talking 17:18:40  
 16 with; so a next step would have been the CEO 17:18:42  
 17 after the CFO. 17:18:46  
 18 Q. Okay. After you received this 17:18:47  
 19 Call Memorandum, Exhibit 2194, did you attempt 17:18:50  
 20 to contact Sherif Abdelhak, the CEO of AHERF? 17:18:54  
 21 A. I believe that after this point we 17:19:01  
 22 did try to organize a meeting with him and 17:19:04  
 23 some others, and I cannot be specific on the 17:19:09  
 24 time frame, I'm not sure, but we did have a 17:19:12  
 25 meeting planned. 17:19:15

Page 262

1 KARLEEN CARLSON STRAYER 17:19:15  
 2 We flew out to -- first we met in 17:19:16  
 3 Philadelphia with some people and then we flew 17:19:20  
 4 out in Pittsburgh, and I believe it was in 17:19:23  
 5 Pittsburgh we were supposed to meet with 17:19:25  
 6 Sheriff Abdelhak, and when we arrived we were 17:19:29  
 7 told that he had an emergency and could not 17:19:31  
 8 meet with us; so it was actually at a later 17:19:32  
 9 meeting that we ended up meeting him. 17:19:35  
 10 Q. When was that first meeting 17:19:38  
 11 scheduled for, if you know? 17:19:41  
 12 A. I don't recall exactly. There's 17:19:42  
 13 probably a memo about it somewhere. 17:19:43  
 14 Q. Do you recall the year? 17:19:46  
 15 A. The first meeting? 17:19:47  
 16 Q. No. Just to be specific -- the 17:19:48  
 17 first meeting in terms of the one where you 17:19:51  
 18 flew out and Mr. Abdelhak said that he wasn't 17:19:53  
 19 available and you weren't able to meet with 17:19:57  
 20 him, was that '97 or '98? 17:19:59  
 21 A. I think '97. 17:20:02  
 22 Q. But you're not certain? 17:20:10  
 23 A. I'm not certain. 17:20:11  
 24 Q. Do you recall how much time 17:20:13  
 25 elapsed between your first attempt to meet 17:20:14

Page 264

1 KARLEEN CARLSON STRAYER 17:21:21  
 2 financial information, because again, the DVOG 17:21:23  
 3 was on a June 30 fiscal year? 17:21:29  
 4 A. Well, we eventually got the 1997 17:21:32  
 5 financials, audited financial statements, but, 17:21:36  
 6 yes, we only got the audits as they came due. 17:21:41  
 7 Q. So in this time frame, April 1997, 17:21:43  
 8 the lots and lots of information you're 17:21:46  
 9 receiving is unaudited financial information, 17:21:49  
 10 amongst other information? 17:21:51  
 11 A. Yes. 17:21:54  
 12 Q. Earlier you testified that with 17:21:56  
 13 respect to Sacred Heart Hospital you 17:21:58  
 14 personally met on at least three occasions 17:21:59  
 15 with the Sacred Heart Hospital Executive 17:22:02  
 16 Committee, correct? 17:22:06  
 17 A. Yes. 17:22:07  
 18 Q. And the Executive Committee was 17:22:08  
 19 comprised of trustees for Sacred Heart 17:22:09  
 20 Hospital? 17:22:13  
 21 A. Yes. 17:22:14  
 22 Q. On receiving this memorandum, did 17:22:15  
 23 you make any attempt to meet with the AHERF 17:22:17  
 24 board to discuss this surreptitious moving of 17:22:21  
 25 funds as described here? 17:22:25

Page 263

1 KARLEEN CARLSON STRAYER 17:20:14  
 2 with Mr. Abdelhak and the second time? 17:20:16  
 3 A. I'm not sure how much time there 17:20:21  
 4 was. But I should point out during this time 17:20:23  
 5 we're having a lot of conversations with David 17:20:28  
 6 McConnell and Mike Martin, and they are 17:20:38  
 7 providing us with lots and lots of 17:20:38  
 8 information, we're getting a lot of 17:20:38  
 9 information from them. 17:20:40  
 10 Q. Right. 17:20:41  
 11 A. So I think our purpose in meeting 17:20:42  
 12 with Sherif was more to make a point than to 17:20:45  
 13 ask questions. We weren't trying to get 17:20:49  
 14 necessarily more information from him; we were 17:20:52  
 15 trying to convey a message to him. 17:20:54  
 16 Q. In terms of lots and lots of 17:20:56  
 17 information, I take it you mean lots and lots 17:20:58  
 18 of unaudited financial information? 17:21:01  
 19 A. And a lot of phone calls. So we 17:21:05  
 20 would, we were doing a lot of phone calls with 17:21:07  
 21 the financial folks at AHERF to understand the 17:21:09  
 22 numbers that we had and what was going on. 17:21:13  
 23 Q. So possibly some projections? 17:21:15  
 24 A. Possibly. 17:21:19  
 25 Q. But no additional audited 17:21:21

Page 265

1 KARLEEN CARLSON STRAYER 17:22:25  
 2 A. I don't believe so. 17:22:27  
 3 Q. Why not? 17:22:27  
 4 A. Because, for several reasons: 17:22:32  
 5 There -- I believe we had the view that the 17:22:36  
 6 problem was still controllable because some of 17:22:39  
 7 the, some of the things, for example, in the 17:22:44  
 8 prior memo, referred to the fact that the 17:22:46  
 9 physician -- the payments to the physicians 17:22:49  
 10 were yielding increased volume, we saw that as 17:22:51  
 11 a good sign. 17:22:55  
 12 I believe in this memo it says 17:22:56  
 13 that the physician acquisition strategy had 17:22:57  
 14 stopped. And so, we felt that some of the 17:23:01  
 15 things -- some of the negative financial 17:23:05  
 16 affects of their reorganization and physician 17:23:08  
 17 acquisition strategy were at an end and there 17:23:12  
 18 would, perhaps, be some stability in the 17:23:17  
 19 system. 17:23:20  
 20 We were, in some sense, viewing 17:23:21  
 21 these cash transfers as a mitigant to us on 17:23:24  
 22 the DVOG side; so we wouldn't, we wouldn't at 17:23:27  
 23 this point have gone to the board to complain 17:23:31  
 24 about this because at this point the movement 17:23:34  
 25 of the funds was actually helping us; so we 17:23:36

Page 266

1 KARLEEN CARLSON STRAYER 17:23:36  
 2 wouldn't go to the board to try to stop that 17:23:41  
 3 from happening. 17:23:42  
 4 Q. Was there any guarantee at this 17:23:43  
 5 point in time that the movement of funds 17:23:45  
 6 described in Exhibit 2194 was going to 17:23:47  
 7 continue to help the DVOG? 17:23:50  
 8 A. Well, there was no guarantee. 17:24:00  
 9 There was a representation that, by the CFO 17:24:02  
 10 here, that he moved around funds as necessary, 17:24:06  
 11 but there were certainly no guarantee that he 17:24:09  
 12 was going to do that. 17:24:13  
 13 Q. Did you attempt to get such a 17:24:14  
 14 guarantee from Mr. McConnell or anyone else at 17:24:16  
 15 AHERF? 17:24:21  
 16 A. I don't know that, other than an 17:24:25  
 17 amendment to the bond documents, whether any 17:24:29  
 18 sort of guarantee would have been, would have 17:24:33  
 19 been something we could count on. 17:24:41  
 20 I mean, we would have needed a 17:24:43  
 21 contractual obligation from them, so we would 17:24:45  
 22 have had to have them amend the bond documents 17:24:47  
 23 in some fashion, I assume, and no, that wasn't 17:24:50  
 24 anything we asked for specifically. 17:24:54  
 25 Q. Did you or did anyone on your 17:24:57

Page 267

1 KARLEEN CARLSON STRAYER 17:24:57  
 2 staff undertake any investigation to determine 17:25:01  
 3 whether the bond documents could be amended in 17:25:02  
 4 the way you're describing? 17:25:05  
 5 A. No, we didn't. 17:25:08  
 6 Q. Why not? 17:25:09  
 7 A. Because I think -- a lot depends 17:25:13  
 8 on what time period you're talking about. 17:25:16  
 9 Q. I'm talking about in the time 17:25:18  
 10 frame of this memorandum, April 30th, 1997. 17:25:19  
 11 A. April. Well, I think it's 17:25:25  
 12 important to remember that our view at this 17:25:29  
 13 time, while we were very concerned with the 17:25:30  
 14 cash position, we -- our understanding was 17:25:33  
 15 that DVOG, DVOG in and of itself, entities 17:25:36  
 16 operating within that system, were profitable. 17:25:44  
 17 And that the problem was, the severity of the 17:25:46  
 18 problem was really caused by the physician 17:25:49  
 19 practice plan. And we viewed that as something 17:25:52  
 20 that could be controlled, to some extent. 17:25:54  
 21 So it was -- you know, we did not 17:26:00  
 22 view this as the operating entities within 17:26:01  
 23 DVOG were bleeding and needed the West 17:26:03  
 24 support; we viewed this as a specific problem 17:26:06  
 25 caused by the physician acquisitions. 17:26:09

1 KARLEEN CARLSON STRAYER 17:26:09  
 2 Q. And again, you personally believed 17:26:12  
 3 that this was a controllable problem? 17:26:14  
 4 A. We felt, at least as, you know, at 17:26:17  
 5 April 1997, that this was a situation that 17:26:22  
 6 AHERF management team could correct, yes. 17:26:27  
 7 Q. I'm specifically asking you 17:26:32  
 8 whether you personally thought that MBIA could 17:26:33  
 9 "control" this problem? 17:26:39  
 10 A. MBIA could control this moment. 17:26:41  
 11 Q. Yes, you several times used the 17:26:51  
 12 phrase "controllable problem." 17:26:51  
 13 A. No, MBIA had no control rights 17:26:51  
 14 whatsoever. We had no breach of a covenant. 17:26:51  
 15 We had -- you know, we never have the ability 17:26:53  
 16 to control management. 17:26:54  
 17 Our rights and remedies always 17:26:55  
 18 come through the bond documents, through the 17:26:57  
 19 covenants and nothing had been breached. 17:26:59  
 20 Q. So this -- 17:27:01  
 21 A. We had no rights. 17:27:02  
 22 Q. So the surreptitious moving of 17:27:03  
 23 funds described here was a controllable 17:27:08  
 24 problem, "controllable" meaning on the part of 17:27:10  
 25 AHERF, AHERF could control this? 17:27:13

Page 269

1 KARLEEN CARLSON STRAYER 17:27:13  
 2 MR. WITTEN: Objection. 17:27:15  
 3 A. Well, when I say "controllable" 17:27:19  
 4 problem, I meant something broader than just 17:27:21  
 5 moving the funds around. To us, moving the 17:27:22  
 6 funds, in some ways, wasn't necessarily a 17:27:26  
 7 problem; it was relieving DVOG, to some 17:27:28  
 8 extent. 17:27:31  
 9 The problem to which I was 17:27:32  
 10 referring was the fact that they had these 17:27:34  
 11 major transfers going out to fund the 17:27:35  
 12 physician losses; so I guess it depends on 17:27:38  
 13 whether the cash transfers, if you're 17:27:41  
 14 referring to the cash transfers coming from 17:27:43  
 15 the West or if you're referring to the cash 17:27:45  
 16 transfers going out for the physician 17:27:48  
 17 acquisitions, and that we did view as a 17:27:49  
 18 problem and we did view that as a problem that 17:27:52  
 19 they could control. I don't know if I'm being 17:27:54  
 20 clear, but that was my intention. 17:27:58  
 21 Q. Final question: But MBIA could 17:28:09  
 22 only attempt to influence AHERF physician 17:28:11  
 23 practice acquisition strategy, it didn't 17:28:16  
 24 control it? 17:28:18  
 25 A. Right. 17:28:19

Page 270

1 KARLEEN CARLSON STRAYER 17:28:19  
 2 MR. KRUSKO: Let's go off the 17:28:21  
 3 record. 17:28:21  
 4 THE VIDEO OPERATOR: Going off the 17:28:25  
 5 record at 5:28 p.m. This is end the tape 17:28:25  
 6 number three. 17:28:30  
 7 (Time Noted: 5:28 p.m.) 17:28:35

8  
 9  
 10 KARLEEN CARLSON STRAYER  
 11  
 12 Subscribed and sworn to before me  
 13 this \_\_\_\_ day of \_\_\_\_\_, 2003.  
 14  
 15 \_\_\_\_\_  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

Page 272

1 KARLEEN CARLSON STRAYER  
 2 CERTIFICATE  
 3 STATE OF NEW YORK )  
 4 : SS.  
 5 COUNTY OF NEW YORK )  
 6  
 7 I, PHYLISS SALIMBENE, a Registered  
 8 Professional Reporter and Notary Public within  
 9 and for the State of New York, do hereby  
 10 certify:  
 11 That KARLEEN CARLSON STRAYER, the  
 12 witness whose deposition is hereinbefore set  
 13 forth, was duly sworn by me and that such  
 14 deposition is a true record of the testimony  
 15 given by the witness.  
 16 I further certify that I am not  
 17 related to any of the parties to this action  
 18 by blood or marriage, and that I am in no way  
 19 interested in the outcome of this matter.  
 20 IN WITNESS WHEREOF, I have  
 21 hereunto set my hand this \_\_\_\_ day of  
 22 \_\_\_\_\_, 2003.  
 23  
 24  
 25 PHYLISS SALIMBENE, RPR

Page 271

Page 273

1 KARLEEN CARLSON STRAYER  
 2 STATE OF NEW YORK ) Pg\_\_of\_\_Pgs  
 3 SS:  
 4 COUNTY OF NEW YORK )  
 5 I wish to make the following changes,  
 6 for the following reasons:  
 7 PAGE LINE  
 8 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 9 \_\_\_\_\_ REASON: \_\_\_\_\_  
 10 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 11 \_\_\_\_\_ REASON: \_\_\_\_\_  
 12 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 13 \_\_\_\_\_ REASON: \_\_\_\_\_  
 14 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 15 \_\_\_\_\_ REASON: \_\_\_\_\_  
 16 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 17 \_\_\_\_\_ REASON: \_\_\_\_\_  
 18 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 19 \_\_\_\_\_ REASON: \_\_\_\_\_  
 20 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 21 \_\_\_\_\_ REASON: \_\_\_\_\_  
 22 \_\_\_\_\_ CHANGE: \_\_\_\_\_  
 23 \_\_\_\_\_ REASON: \_\_\_\_\_  
 24  
 25

EXHIBITS	
DESCRIPTION	PAGE
(Deposition Exhibit 2191 for identification, two-page document, production numbers MBIA 047948 to MBIA 047949.).....	109:16
(Deposition Exhibit 2192 for identification, copy of a transcript.).....	173:12
(Deposition Exhibit 2193 for identification, Alert Report, production numbers MBIA 029899.).....	210:22
(Deposition Exhibit 2194 for identification, Call Memorandum dated April 30, 1997, production numbers MBIA 029900 through MBIA 029902.).....	244:5
EXHIBITS SHOWN THAT WERE PREVIOUSLY MARKED	
EXHIBIT	PAGE
1884 .....	153:12
1885 .....	165:17
1887 .....	190:23

**In The Matter Of:**

**AHERF v.  
PRICEWATERHOUSECOOPERS, LLP,**

---

**KARLEEN CARLSON STRAYER**  
*October 9, 2003*

---

**LEGALINK MANHATTAN**  
**420 Lexington Avenue - Suite 2108**  
**New York, NY 10170**  
**PH: 212-557-7400 / FAX: 212-692-9171**

STRAYER, KARLEEN CARLSON - Vol. II



A WORDWAVE COMPANY

<p>1 KARLEEN CARLSON STRAYER      2 who all attended that meeting.      3 Q. You're referring to David Barnes      4 and Ira Gumberg?      5 A. Yes.      6 Q. What did Mr. Barnes tell you at      7 this meeting about the Mellon repayment?      8 A. I can't recall. It was -- I can't      9 recall who finally told us that the payment      10 had been made; we did eventually discover the      11 payment had been made but we did not -- I      12 mean, this was happening over a matter of a      13 course of days, not weeks or months, so, so we      14 kept asking different people because some      15 people were saying "no" and, of course, we      16 knew it was imminent, so we were trying to      17 understand what was going on, but I can't      18 recall specifically what the trustees      19 indicated to us.      20 Q. Just to be clear, I take it you      21 don't recall anything that Mr. Gumberg told      22 you at this meeting?      23 A. I recall that the trustees, and I      24 don't know if specifically Mr. Gumberg, but I      25 recall that they were in some sense relieved</p>	<p>Page 303</p> <p>1 KARLEEN CARLSON STRAYER      2 knew at the time, that the bank did have some      3 leverage.      4 Q. Did you subsequently learn      5 anything about the payment?      6 A. We learned it had been repaid.      7 Q. Let me ask you this: Is it your      8 recollection that there were individuals who      9 served in this time frame both on the board of      10 Mellon Bank and on the AHERF board of      11 trustees?      12 A. Yes.      13 Q. Do you know one way or the other      14 whether any of those individuals exerted any      15 influence over the decision by AHERF to repay      16 the Mellon line of credit?      17 A. I don't know.      18 MR. KRUSKO: Can I suggest a coffee      19 break?      20 THE VIDEO OPERATOR: Going off --      21 MR. KRUSKO: Hearing no objection.      22 THE VIDEO OPERATOR: Going off the      23 record at 10:17.      24 (Recess taken.)      25 THE VIDEO OPERATOR: Returning to</p>
<p>1 KARLEEN CARLSON STRAYER      2 because there had been an employee reduction      3 in force not too long before that and they saw      4 that as a -- something that could help the      5 health, financial health of the organization;      6 they saw that as a positive, so that they      7 talked about that.      8 Q. But you don't remember any      9 comments that Mr. Gumberg may have made during      10 this meeting about the Mellon line of credit      11 repayment?      12 A. Not specific comments, no.      13 Q. When you say that "MBIA knew the      14 repayment was imminent," what's your basis for      15 your statement? And I should be clear, I      16 believe you testified that going into this      17 meeting MBIA knew that the payment was      18 imminent.      19 A. Yes. I don't recall how we knew      20 that.      21 Q. You just recall a feeling that      22 this was -- no, I'm just trying --      23 A. No, I think they had a default of      24 some sort or it was expiring that -- the bank      25 had some leverage, I believe; that's all we</p>	<p>Page 304</p> <p>1 KARLEEN CARLSON STRAYER      2 the record at 10:21.      3 MR. KRUSKO: I would note for the      4 record that Exhibit 2194 appears to be      5 identical to Exhibit 1895.      6 (Deposition Exhibit 2195 for      7 identification, document, production numbers      8 MBIA 007744 through MBIA 007756.)      9 Q. Ms. Strayer, let me hand you what      10 has been marked as Exhibit 2195.      11 MR. KRUSKO: For the record, I      12 would note that Exhibit 2195 bears the Bates      13 numbers MBIA 007744 through MBIA 007756.      14 Q. Ms. Strayer, if I could ask you at      15 the outset, do you recognize this document?      16 A. Yes.      17 Q. What is this document?      18 A. It's a document that our group      19 would prepare on credits that were on the      20 caution list or weaker.      21 Q. I take it, then, Mr. Heberton      22 performed this analysis in the wake of the      23 DVOG entities being placed on the caution list      24 in the February 1997 time frame?      25 A. Yes, it looks like it.</p>

<p>1 KARLEEN CARLSON STRAYER      2 Q. And this is a standard form that      3 MBIA used at the time for performing this sort      4 of analysis?      5 A. Yes.      6 Q. Did you review this analysis after      7 Mr. Heberton had written it?      8 A. Yes.      9 Q. And did you approve of its      10 contents before it was filed?      11 A. Well, we didn't -- I didn't      12 necessarily have an approval process for a      13 document like this. Dick was simply -- he was      14 simply putting on paper what the conditions      15 were in the legal documents and some other      16 information; so, I reviewed it. I wouldn't      17 necessarily have had to approve this kind of      18 document.      19 Q. What happened, I just want to be      20 clear on the process, what happened after      21 Mr. Heberton wrote it and you reviewed it?      22 I'm just trying to get a sense as to what to      23 this file signifies.      24 A. He's sending it to the file but      25 the purpose of the document is not necessarily</p>	<p>Page 307</p> <p>1 KARLEEN CARLSON STRAYER      2 correct?      3 A. Yes.      4 Q. I'm sorry, waivers and control of      5 remedies, as well.      6 He then writes: One problem is      7 that the asset transfer test does not follow      8 MBIA's standard conditions, and this has      9 allowed ADVOG to transfer substantial levels      10 of cash without breaking the covenant. The      11 standard test is 10 percent of PP&amp;E; in this      12 case, equal to 42 million. The test in the      13 MTI allows ADVOG to transfer 8 percent of      14 all -- and "all" is underlined -- assets for      15 about 76 million per year. Do you see that?      16 A. Yes.      17 Q. Do you have an understanding as to      18 what Mr. Heberton meant by the "standard test      19 is 10 percent of PP&amp;E"?</p> <p>20 A. Well, a very common test in our      21 healthcare documents is 10 percent of PP&amp;E,      22 but it's also not totally uncommon to see a      23 test based on total assets.</p> <p>24 Q. Is the 10 percent of PP&amp;E test --      25 withdrawn.</p>
<p>1 KARLEEN CARLSON STRAYER      2 to paper the file but, rather, this was a      3 document we could use during our remedial      4 activities. It was a way to summarize some of      5 the key points within the legal documents so      6 that we could refer to this quickly as opposed      7 to constantly going back to the bond      8 documents.      9 Q. So is it fair to say that Exhibit      10 2195 was a reference tool that MBIA's      11 Healthcare Group in the Surveillance      12 Department used during the remediation process      13 with respect to the DVOG?      14 A. Yes.      15 Q. Would you turn with me to page      16 007745, the second page of this document.      17 A. Okay.      18 Q. I take it this caption contains      19 Mr. Heberton's overview of the applicable      20 legal documents with respect to the DVOG      21 offering?      22 A. Yes, he's summarizing them.      23 Q. Mr. Heberton at the outset notes      24 that the documents appear in good shape and      25 give MBIA reasonable control over consents,</p>	<p>Page 308</p> <p>1 KARLEEN CARLSON STRAYER      2 Was the 10 percent of PP&amp;E test      3 MBIA's standard test for asset transfers in      4 this time frame?      5 A. It was a, it was a common test.      6 It wasn't -- there was no mandate that that      7 was the test the analysts had to have, but it      8 was, it was common in these documents, in      9 these types of documents.      10 Q. Was it a standard test?      11 A. Define "standard." I'm just, I'm      12 saying it's "common"; it wasn't unusual to      13 have used that. He's using the word      14 "standard." I doubt he put, he put a      15 tremendous amount of thought into that.      16 It was simply something that we      17 would frequently see in healthcare documents.      18 10 percent of PP&amp;E was a fairly frequent test      19 and I think that's what he means by      20 "standard."      21 Q. Do you know how the eight percent      22 of all assets test was incorporated into the      23 master trust indenture for the DVOG bond      24 offering, the circumstances surrounding that      25 decision?</p>

<p>1 KARLEEN CARLSON STRAYER  2 A. Oh, why it was eight percent  3 versus something else?  4 Q. Yes.  5 A. I don't know.  6 Q. Did you ever undertake any  7 investigation or direct anyone on your staff  8 to undertake an investigation as to why the  9 test was eight percent of all assets and not  10 percent of PP&amp;E?  11 A. No.  12 Q. Why not?  13 A. Because having a test based on all  14 assets was not totally uncommon. It wasn't --  15 this would not have been the only time I had  16 ever seen a test based on total assets.  17 Also, as Dick points out, we just  18 had recently closed the transaction and at the  19 time the transaction closed we had a view of  20 this client as a very -- as a creditworthy  21 client, as a strong system, a strong  22 management team; so the fact that the  23 underwriter, the analyst who underwrote the  24 deal had chosen to give them a test that might  25 have been a little bit looser than we</p>	<p>Page 311</p> <p>1 KARLEEN CARLSON STRAYER  2 statements?  3 A. I would assume so, since this  4 report is dated subsequent to our receipt of  5 those financial statements.  6 Q. And that would have been standard  7 practice for an analyst under your supervision  8 performing this sort of legal documents  9 overview in this time frame?  10 A. It would have been standard --  11 Dick, Dick is pointing out this particular  12 test in this set of documents, because this is  13 a -- an issue that AHERF is having in terms of  14 the cash transfers and it is a concern of  15 ours.  16 Each, each remedial initiative we  17 undertook was very specific to the issues that  18 that particular credit was having; so, in a  19 different client, we might have written  20 something totally different.  21 He is simply pointing this out for  22 AHERF because cash transfers was of particular  23 concern to us with, with AHERF.  24 Q. I understand that. All I asked  25 was that, was whether it was the practice of</p>
<p>1 KARLEEN CARLSON STRAYER  2 frequently found was not -- that would not  3 have set off alarm bells in my head.  4 I would have wished for a tighter  5 test because clearly the purpose of this  6 document and the reason Dick is summarizing  7 this is that in a remediation, MBIA is looking  8 for some way to control what's happening with  9 the credit, and so, he is trying to find a  10 covenant default of some sort to give us a  11 little bit of control; and clearly, from this,  12 he hasn't found it.  13 Q. So given that you've testified  14 that a covenant default gives us, meaning  15 MBIA, a little bit of control, I take it MBIA  16 has no control over the remediation process in  17 the absence of a covenant default?  18 A. We have no legal remedies, if  19 that's what you mean by "control." We do not  20 have legal remedies until the covenant is  21 breached.  22 Q. Is it your understanding that  23 Mr. Heberton derived these absolute amounts,  24 by that I mean 42 million and 76 million, from  25 a review of the FY '96 DVOG audited financial</p>	<p>Page 312</p> <p>1 KARLEEN CARLSON STRAYER  2 analysts in the Healthcare Group in the  3 Surveillance Department to refer back to the  4 most recent audited annual financial  5 statements in performing the legal documents  6 overview, such as this, to the extent they  7 needed to refer to some financial information.  8 A. Yes, to the extent they were  9 trying to calculate a covenant, yes,  10 absolutely.  11 Q. MBIA clearly knew in the months  12 leading up to the DVOG bond offering that the  13 entities that were going to comprise the DVOG  14 were making support payments to AIHG, the  15 physician practice acquisition organization,  16 correct?  17 A. Yes.  18 Q. And that was clearly reflected in  19 the official statement, Exhibit 408, which we  20 looked at yesterday?  21 A. Yes.  22 Q. In light of that knowledge,  23 shouldn't the healthcare analyst on the new  24 business side have paid particular attention  25 to the stringency of the asset transfer test?</p>

Page 315

Page 317

1 KARLEEN CARLSON STRAYER

2 A. I cannot speak to what the  
3 negotiations were and what they were thinking  
4 at that time. I, I -- you know, I would  
5 assume that that was something the analyst  
6 reviewed.

7 Q. And that would have been your  
8 expectation as someone who was responsible for  
9 monitoring the credits after the decision had  
10 been made to provide MBIA bond insurance?

11 A. It would have been my expectation  
12 that the analyst who underwrote the credit  
13 would have a -- would have done a fair amount  
14 of due diligence, would have understood the  
15 dynamics of the credit and would have  
16 negotiated documents that reflected their view  
17 of the financial health of the credit.

18 Q. Mr. Heberton notes that the test  
19 in the MTI results in a ceiling on transfers  
20 of 76 million per year; is that correct?

21 MR. WITTEN: Objection.

22 A. He's calculated it for that  
23 particular year; that number would change  
24 based on what year you're calculating it, but,  
25 yes.

Page 316

Page 318

1 KARLEEN CARLSON STRAYER

2 Q. Absolutely correct.

3 So to be specific, this is his  
4 calculation of the ceiling in fiscal year  
5 1996?

6 A. Yes.

7 Q. And is it your recollection that  
8 in fiscal year 1996 the DVOG transferred to  
9 affiliates \$73 million?

10 A. Roughly. I think we looked at  
11 that number yesterday, it was -- that sounds  
12 about right.

13 Just wanted to look.

14 Q. That's all right. If you wanted  
15 to take a look at the FY '96 audited financial  
16 statements for DVOG, it's Exhibit 1894.

17 A. Okay.

18 Q. And specifically, I would refer  
19 you to MBIA 015821.

20 A. Yes, I see.

21 Q. And this, again, is the income  
22 statement for the DVOG for fiscal year 1996,  
23 correct?

24 A. Yes.

25 Q. And "transfers to affiliates, net"

1 KARLEEN CARLSON STRAYER

2 is listed as 73,676,000, correct?

3 A. Yes.

4 Q. So using round numbers, that's  
5 about 2 million shy of the ceiling that year  
6 under the eight percent of all assets test?

7 A. Yes.

8 Q. So is it your view that someone at  
9 AHERF figured out roughly how much money could  
10 be transferred out of DVOG without triggering  
11 this covenant and AHERF subsequently took  
12 advantage of that?

13 MS. HACKETT: Objection, lack of  
14 foundation.

15 A. I, I wouldn't know. I have, I  
16 have no idea what they were thinking at the  
17 time; if they were focusing on, on this  
18 specific test, it is possible, but I'd have no  
19 way of knowing that.

20 Q. Once of DVOG bonds had been issued  
21 in June of 1996, did MBIA have any way of  
22 going back and changing this test  
23 unilaterally?

24 A. No.

25 Q. Is there any way after the DVOG

12 (Pages 315 to 318)